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PUBLIC SERVICE
COMMISSION

September 21, 2010

Honorable Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Subject: Case No. 2010-00146

Dear Mr. Derouen:

Atmos Energy Corporation (Company) herewith submits an original and ten copies of the Company's rebuttal testimony in the above referenced case.

Please feel free to contact me at 270.685.8024 if you have any questions and/or need any additional information.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Martin".

Mark A. Martin
Vice President, Rates & Regulatory Affairs

Enclosure

cc: Service List

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Rebuttal Testimony of Mark Martin

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**Attachment 1 – Rebuttal Testimony of
Patricia Childers from TN Docket
No. 07-00020**

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**Attachment 2 – Rebuttal Testimony of
Mike Ellis from TN Docket
No. 07-00020**

3



**Attachment 3 – Rebuttal Testimony of
Kenneth Malter from TN Docket
No. 07-00020**

4

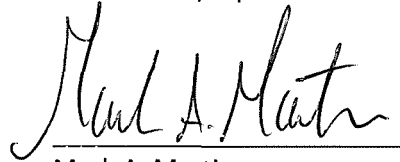
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AFFIDAVIT

The affiant, Mark A. Martin, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitute the prepared direct testimony of this affiant in Case No. 2010-00146, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct testimony.

Affiant further states that he will be present and available for cross-examination and for such additional examination as may be appropriate at the hearing in Case No. 2010-00146 scheduled by the Commission, at which time affiant will further reaffirm the attached prepared testimony as his direct testimony in such case.

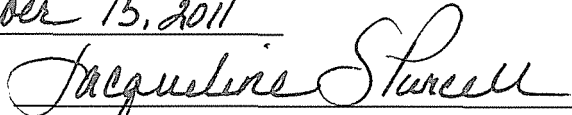


Mark A. Martin

STATE OF KENTUCKY
COUNTY OF DAVIESS

SUBSCRIBED AND SWORN to before me by Mark A. Martin, this the 21 day of September, 2010.

My Commission Expires: November 15, 2011



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**BEFORE THE PUBLIC SERVICE COMMISSION
COMMONWEALTH OF KENTUCKY**

IN THE MATTER OF)
)
AN INVESTIGATION OF NATURAL GAS)
)
RETAIL CHOICE PROGRAMS)

Case No. 2010-00146

REBUTTAL TESTIMONY OF MARK A. MARTIN

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Mark A. Martin. I am Vice President – Rates and Regulatory Affairs for the Kentucky/Mid-States Division of Atmos Energy Corporation (“Atmos Energy” or the “Company”). My business address is 3275 Highland Pointe Drive, Owensboro, Kentucky, 42303.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR PREPARED REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. My testimony has three primary purposes: (1) to opine on the testimonies of Mr. Collins and Ms. Ringenbach; (2) to address the apparent misstatements made by Stand Energy, specifically Mr. Dosker, and (3) to restate and re-emphasize the Company’s position in regards to retail competition programs.

II. DISCUSSION OF INTERSTATE AND RESA TESTIMONY

1 **Q. HAVE YOU REVIEWED THE TESTIMONY OF MR. COLLINS?**

2 A. Yes. Mr. Collins is employed by Interstate Gas Supply, but filed testimony on
3 behalf of Interstate, Vectren and SouthStar.

4 **Q. PLEASE SUMMARIZE.**

5 A. Mr. Collins offers a history of customer choice and citations from the US Energy
6 Information Administration (EIA) as evidence that customer choice is well and
7 growing. It is suggested that often some or all pipeline or storage assets used for
8 commodity services are included in base rates which may lead to a double billing
9 situation. Also, Mr. Collins addresses the characteristics of a properly structured
10 competitive market.

11 **Q. DOES THE COMPANY HAVE ANY COMMENTS IN REGARDS TO MR.
12 COLLINS' TESTIMONY?**

13 A. Yes. It appears that Mr. Collins' examples and recommendations are purely
14 conjecture and not supported by concrete facts or empirical evidence. Also, Mr.
15 Collins never argues that consumers save money, but purely postures on
16 consumers having choice. It appears that Mr. Collins believes that retail choice
17 success should be judged by retention rather than savings. More specifically, the
18 Company would like to comment on Mr. Collins' testimony in regards to pipeline
19 and storage costs, receivables and prudency reviews.

20 Mr. Collins suggests that some or all pipeline and storage costs may be billed in
21 base rates. The Company cannot speak for any of the other local distribution
22 companies (LDCs), but the Company's entire pipeline and storage costs flow
23 through the Gas Cost Adjustment (GCA) mechanism. The Company does not
24 recover any such costs through its base rates.

25 On page 10 of Mr. Collins testimony, he discusses receivables management
26 staying with the utility to prevent duplicative costs or that receivables
27 management should be examined and unbundled. Mr. Collins states that by the
28 utility maintaining the receivable management process, more suppliers can enter
29 the market since their initial costs would be lower. The Company does not
30 believe it is the job of the utility to make things easier for marketers by

1 subsidizing their costs of doing business. True competition is determined by who
2 can provide the best product at the best price. A LDC should not have to
3 subsidize such actions.

4 Mr. Collins states on lines 1 and 2 on page 12 of his testimony that “the
5 regulatory risk associated with cost recovery can be minimized or eliminated to
6 varying degrees depending on customer choice participation levels.” As stated on
7 page 9 of my direct testimony, the Company has a very successful Performance
8 Based Ratemaking (PBR) program. The PBR also serves to reduce the need for
9 the reasonableness review of gas procurement costs. Customers have enjoyed
10 significant savings from the Company’s PBR program - approximately
11 \$41,500,000 from July 1998 through May 2010, with the majority of those
12 savings going to customers. Those savings would likely not have been realized in
13 absence of the PBR mechanism.

14 **Q. HAVE YOU REVIEWED THE TESTIMONY OF MS. RINGENBACH?**

15 A. Yes. Ms. Ringenbach is employed by Direct Energy, but filed testimony on
16 behalf of RESA. Direct Energy is a member of RESA.

17 **Q. PLEASE SUMMARIZE.**

18 A. Ms. Ringenbach’s testimony focuses on the benefits of retail choice, most of the
19 elements included in the Commission’s April 19th Order and provides
20 recommendations.

21 **Q. DOES THE COMPANY HAVE ANY COMMENTS IN REGARDS TO MS.
22 RINGENBACH’S TESTIMONY?**

23 A. Yes. Ms. Ringenbach picked only a few states that have retail choice to glean
24 perceived benefits; however, after closer examination of those states, it appears
25 that Ms. Ringenbach only used the states in which the LDC has or is planning to
26 exit the merchant function. Ms. Ringenbach also tries to use the prudence
27 standard as a positive for retail choice programs. Please refer to lines 4-13 above.
28 Starting on line 7 of page 5 of Ms. Ringenbach’s testimony, she states that “If a
29 residential customer’s only option is to remain with the utility, evidence suggests
30 that they tend toward simply opening the bill and paying it; an implied concession

1 that they have no ability to control their gas cost.” First, this statement is purely
2 conjecture and no evidence is provided to support such a claim. Second, the cost
3 of gas is approximately 70-80% of the total bill. A customer has every incentive
4 to conserve. The less gas a customer uses, the lower their respective gas bill. The
5 conjecture continues with “the mere recognition that “choice” exists often
6 prompts the customer to more closely scrutinize their options...” One must then
7 assume that the local utility is the superior option since participation levels in
8 choice programs across the nation are low.

9 Starting on line 15 of page 5 of her testimony, Ms. Ringenbach discusses
10 additional tax revenues generated by choice programs. The Company is unaware
11 of any of the marketers that are participating in this case that have a local
12 presence in Kentucky. All are headquartered out of state, and one can only
13 assume that they provide little to no additional revenues and/or employment
14 opportunities to Kentucky.

15 Starting on line 1 of page 8 of her testimony, Ms. Ringenbach indicates that “it is
16 imperative that the Commission create an office or staff for the competitive
17 community.” Pennsylvania and Illinois are cited as two states that have created
18 such offices. Even if one were to agree, for purposes of argument, that creation of
19 such an office was a good idea, given current economic times, lack of available
20 resources is a significant impediment. The Commission once employed
21 approximately 120 employees and now is down to approximately 90 employees.
22 These employees support an agency that governs 1,500 utilities, so one has to
23 question the logic in asking them to take on more work. Also, for those out-of-
24 state marketers that may not be familiar with Kentucky, Kentucky faces serious
25 budget concerns. One has to question the logic in asking the Kentucky
26 Legislature for funds to create an agency to help out-of-state companies.

27 28 **III. DISCUSSION OF STAND ENERGY**

29
30 **Q. HAS THE COMPANY WORKED WITH STAND ENERGY BEFORE?**

1 A. Yes. The Company worked very well with Stand Energy in drafting revisions to
2 the Company's Transportation tariff in Virginia. Stand Energy also intervened in
3 the Company's 2007 rate case in Tennessee, Docket No. 07-00020.

4 **Q. PLEASE DESCRIBE TENNESSEE DOCKET NO. 07-00020.**

5 A. The Company filed an application before the Tennessee Regulatory Authority
6 seeking a general rate increase which was docketed as Docket No. 07-00020.
7 Stand used similar tactics in Docket No. 07-00020 that they are using today. In
8 Docket No. 07-00020, Stand only offered misrepresentations and wild accusations
9 without acknowledging the truth. Stand intervened in the Docket No. 07-00020
10 purely to lower the eligibility threshold for transportation service. In Docket No.
11 07-00020, Stand, through the testimony of Mr. Dosker, raised a number of issues,
12 contentions, and statements that were incorrect, unsubstantiated, and had nothing
13 to do with that docket. Please refer to line 19 of page 1 through line 4 of page 2
14 of the rebuttal testimony of Ms. Pat Childers in Docket No. 07-00020 in which
15 Ms. Childers states the following: "Stand's attempt to cast irrelevant matter into
16 this docket have caused me and the other Company witnesses in this docket to
17 spend an inordinate amount of time on rebutting these issues, when Stand has
18 come forward with nothing new to support its untenable positions other than
19 unsubstantiated claims of affiliate favoritism and potential misconduct." Stand
20 made these allegations while it served none of the Company's transportation
21 customers in Tennessee. Please note that currently Stand serves none of the
22 Company's transportation customers in Kentucky either.

23 **Q. PLEASE DESCRIBE THE MISSTATEMENTS FROM DOCKET NO. 07-**
24 **00020 REFERENCED ABOVE.**

25 A. First, Stand failed to realize that Atmos Energy Corporation employs over 4,000
26 people and that there can be several employees with the same last name. Mr.
27 Dosker either was confused that there could be multiple people with the last name
28 Ellis or he actually tried to allege that Mike and Rob Ellis was the same person.
29 Mr. Dosker cites Rob Ellis in his direct testimony in Docket No. 07-00020, but
30 the only witnesses of the Company were Mr. Bertotti, Ms. Childers, Mr. Mike

1 Ellis, and Mr. Malter. No individual from Atmos Energy Marketing, LLC (AEM)
2 filed any testimony in Docket No. 07-00020. Mike Ellis is a peer of mine and is
3 Vice President of Marketing for the entire Kentucky/Mid-States Division. Mike's
4 office is located in Johnson City, TN. Rob Ellis works for AEM and is their
5 Senior Vice President of Marketing. Rob's office is in Franklin, TN. Both have
6 the same last name, both work in marketing, both work in TN, but they are two
7 different and unrelated persons. Please note that the Company currently employs
8 thirteen (13) different people with the last name Ellis.

9 Second, Mr. Dosker alleged predatory behavior. On lines 21 through 24 on page
10 4 of the rebuttal testimony of Mr. Mike Ellis, "Mr. Dosker alleges in his
11 testimony that, ..., customers in Tennessee were told that the Company could not
12 guarantee deliveries of transportation gas if these customers procured their
13 commodity from Stand, ..." Also, Mr. Dosker alleged that Company personnel
14 shared Stand's pricing quotes with AEM personnel. Mr. Ellis continues on lines 1
15 through 6 on page 5 of his rebuttal testimony that "I would point out that Mr.
16 Dosker does not name those employees, nor does he name the customers, nor
17 does he cite any specific locations or dates. While I might appreciate his attempt
18 at discretion, I actually believe these omissions indicate that he is simply
19 speculating, guessing, or that any information he has regarding such alleged
20 behavior is inaccurate."

21 Third, Mr. Dosker alleged that the Company and AEM shared services. As
22 pointed out on lines 6-9 of page 5 of the rebuttal testimony of Mr. Kenneth
23 Malter, the Company "does not provide any purchasing or supply services to
24 AEM or its customers because AEM is responsible for procuring its own
25 customer commodity requirements. In fact, AEM maintains its own credit facility
26 separate for that of the utility primarily of that purpose."

27 Finally, Mr. Dosker alleged that the Company was selling gas in Virginia at
28 below cost. On pages 6 and 7 of Mr. Malter's rebuttal testimony, a schedule is
29 provided which clearly compares the Company's PGA in Virginia with the
30 NYMEX. Based on a review of this information, one has to wonder how Mr.

1 Dosker came to his conclusion that the Company was selling gas below cost in
2 Virginia. For ease of reference, the Company is attaching the rebuttal testimonies
3 of Ms. Childers, Mr. Ellis, and Mr. Malter in Docket No. 07-00020 as
4 Attachments 1, 2 and 3, respectively..

5 **Q. PLEASE DESCRIBE THE RELEVANCE OF DOCKET NO. 07-00020**
6 **WITH THIS CASE.**

7 A. Stand used similar tactics in Docket 07-00020 that they are using today. Stand
8 continues to only offer apparent misrepresentations. After reviewing the direct
9 testimonies of Stand, especially Mr. Dosker, as well as the responses to
10 interrogatories by Stand, one can only conclude that Stand is trying similar tactics
11 within the context of this case.

12 **Q. PLEASE DISCUSS STAND'S RESPONSES TO INTERROGATORIES.**

13 A. The responses by Stand to various interrogatories cause the Company great
14 concern. Please refer to Stand's response to the twelfth interrogatory propounded
15 by Duke Energy. This same question was also asked of Stand by the PSC Staff.
16 Please refer to the eighth interrogatory asked of Stand in the Staff's first set of
17 interrogatories. These specific interrogatories were asked in response to lines 5-8
18 of page 8 of Mr. Dosker's testimony in which he alleges predatory behavior by
19 "most of Kentucky's regulated utilities." Mr. Dosker's response indicates that
20 "Stand Energy is adamant in its position that Kentucky should NOT permit
21 unregulated affiliates to operate within the territory of their regulated parent
22 utility under any circumstances." It is interesting to note that although this Case
23 was created to examine expanding customer choice, Stand appears to want to
24 limit the amount of competition in the Commonwealth. Mr. Dosker continues
25 with a specific example of AEM serving Fort Knox within the service territory of
26 LG&E. Stand obtained the winning bid terms via "a Freedom of Information Act
27 (FOIA) request to Ft. Knox." Supposedly, AEM's bid was a price lower than
28 Stand's cost to serve. The Company cannot specifically speak to the Fort Knox
29 bids since it is not privy to that information, but it appears that Stand does not win
30 much business and maybe they do not because their costs to serve are higher than

1 other bidders. Yes, AEM is the Company's asset manager, but the Company has
2 full rights to its capacity and the capacity is recallable at any time. AEM can only
3 utilize the Company's idle capacity. The Company doubts that AEM could
4 purely serve Fort Knox with only using the Company's idle capacity. As Mr.
5 Dosker points out on lines 1-3 on page 5 of his testimony, "Released capacity is
6 not a dependable method of transporting gas, especially during the winter heating
7 season ... because it is interruptible."

8 The Staff asked Stand a qualifying question in regards to lines 10-17 of page 9 of
9 Mr. Dosker's testimony. The referenced question is the ninth interrogatory asked
10 of Stand by the Staff in the Staff's first set of interrogatories. The qualifying
11 question was asked in regards to the contention by Mr. Dosker that AEM "has not
12 successfully managed the transportation assets of Atmos." Please note that Mr.
13 Dosker offers up no facts or supporting evidence, just more conjecture. Mr.
14 Dosker also states that asset managers are bad for consumers, specifically
15 "Whatever fee is being paid for the "management of the LDC assets" it is costing
16 the competitive marketplace and ratepayers far more." Please note that all firm
17 customers receive 100% of all benefits of asset management on the front end.
18 The Company collects a portion of the savings through its PBR mechanism.
19 Also, please note that asset management was not an outsourcing of personnel.
20 Asset management was designed to optimize and leverage the Company's assets.
21 The Company strongly believes that its firm customers have greatly benefited
22 from its gas purchasing decisions.

23 **Q. DOES ATMOS ACT IN A PREDATORY MANNER?**

24 A. Absolutely not. Such a claim is baseless and without merit. The Company would
25 like to re-emphasize its response to the second interrogatory received from Staff
26 within the Staff's second set. That response stated the following "...Please note
27 that the Company has not, does not and will not provide any of its affiliates with
28 preferential treatment. The Company has policies and procedures in place to
29 make sure that no marketer is given preferential treatment. The Company takes

1 the Code of Conduct policies very seriously and works diligently to comply with
2 such policies...”

3 **Q. PLEASE DISCUSS THE TESTIMONY OF MR DOSKER.**

4 A. As mentioned earlier, Mr. Dosker’s testimony is filled with apparent
5 misstatements and he offers no evidence to support his erroneous claims.

6 **Q. PLEASE ELOBORATE ON MR. DOSKER’S APPARENT**
7 **MISSTATEMENTS.**

8 A. On line 2 of page 5, Mr. Dosker claims that the Company has “anti-competitive
9 sales programs in place”. On line 21 of page 5, Mr. Dosker asks himself about a
10 utility and its unregulated marketing affiliate sharing employees. Please note that
11 this same baseless claim was made by Mr. Dosker in Docket No. 07-00020 in
12 Tennessee as referenced earlier in my testimony. Mr. Dosker cites that other
13 states have codes of conduct in place to prevent the sharing of employees.
14 Beginning on the bottom of page 6, Mr. Dosker coins the term “regulatory
15 evasion” in which he claims that regulated utilities favor their unregulated
16 affiliates by either paying inflated prices for affiliated services, selling services to
17 an affiliate at below market prices or a combination of both. Please note that the
18 Company is in full compliance with all of the Kentucky statutes that govern
19 affiliate transactions and does not provide any affiliate or non-affiliate with any
20 purchasing or supply services as referenced by Mr. Dosker. Also, please note that
21 all invoices paid are transparent. All invoices can be traced to pipeline tariffs as
22 well as the appropriate index. All invoices are thoroughly audited prior to
23 submission for payment. Stand may want to do some market comparison, as the
24 Company is a low cost provider within Kentucky. One has to wonder how
25 Atmos’ customers could be charged inflated prices if they pay the lowest or one
26 of the lowest sets of rates in the state each month.

27 **Q. DOES THE COMPANY AGREE WITH STAND’S POSTION ON**
28 **BALANCING CHARGES?**

29 A. No. The Company’s balancing provisions are in place to protect all customers
30 and to maintain the integrity of the distribution system. The Company’s existing

1 balancing provisions were designed to prevent any one party from gaming the
2 system. Stand advocates a “No Harm No Foul” mantra that is elementary at best.
3 The Company keeps its system balanced on a daily basis. By balancing daily, the
4 Company prevents any one party from over or under nominating supply at any
5 point during the month. The Company offers a pooling service to our customers.
6 Pooling allows for multiple customers in the same pool area to aggregate together
7 to avoid balancing charges.

8 **Q. PLEASE DISCUSS THE TESTIMONY OF MR. WARD.**

9 While Mr. Ward’s testimony is not marked with page or line numbers, I will do
10 my best to cite an area of concern. On lines 13-18 on page 5 of Mr. Ward’s
11 testimony, he touts savings that Stand has achieved for certain customers. These
12 savings are only stated and not supported by any facts. The Company realizes
13 that there may be confidential information that was used to calculate the stated
14 amounts, but the Company has doubts that these savings could be replicated to
15 customers with smaller usage patterns. Mr. Ward categorizes these accounts as
16 large administrative facilities, but offers no evidence on how similar savings
17 could be replicated to smaller facilities. As stated in my direct testimony, it is
18 somewhat intuitive that there is a point of diminishing returns depending on a
19 customer’s usage in which savings can be achieved under transportation service.

20
21 **IV. ATMOS’ POSITION ON RETAIL CHOICE**

22
23 **Q. HAVE YOU REVIEWED ALL PARTIES POSITIONS IN THIS CASE?**

24 A. While I have not read every page of every document filed in this case, I have read
25 enough that I believe that I understand each party’s position.

26 **Q. WHAT IS YOUR UNDERSTANDING OF THE POSITIONS OF EACH**
27 **PARTY?**

28 A. It is safe to say that the five LDCs would prefer to keep the status quo. Each LDC
29 is unique and it should be up to the individual LDC to propose a retail choice
30 program to the Commission. The Commission already has the authority to

1 approve such types of programs. The Commission has approved and renewed a
2 retail choice pilot program for Columbia. It is also safe to say that the marketing
3 companies would prefer for retail choice to be available across Kentucky while
4 Stand would prefer for the eligibility threshold for transportation service be
5 lowered from its existing levels. Organizations such as AARP, the Community
6 Action Council and the Association of Community Ministries have expressed
7 concerns over retail choice programs.

8 **Q. DOES THE COMPANY BELIEVE THAT A LDC SHOULD BE ORDERED**
9 **TO ALLOW RETAIL CHOICE?**

10 A. No. As stated earlier as well as in my direct testimony, each LDC within
11 Kentucky is uniquely situated. What may work for one company may not
12 necessarily work for all companies. The Company believes that the Commission
13 should maintain the status quo. If a particular LDC wants to implement a retail
14 choice program, it should be up to the individual LDC to file such an application.
15 The Company has great concerns about any plan or program that may negatively
16 impact its customers. The Company is proud of being a low cost provider of
17 natural gas and strives every day to achieve low and stable prices for its
18 customers. The Company believes that a retail choice program will increase gas
19 costs, could decrease the level of customer service and may ultimately encourage
20 fuel switching of existing customers. In regard to gas cost, since no costs will be
21 eliminated under the proposed structure (LDCs would still be required to maintain
22 and support all operations), costs can only increase under a retail competition
23 program. Additionally, LDCs do not mark up the cost of gas. Marking up the
24 cost of gas would be the primary source of profits for marketers in a retail choice
25 program. As a result, consumers and businesses would almost certainly pay
26 higher prices for natural gas service. In regard to customer service, customer
27 perception may be impacted by billing, service and possible deceptive marketing
28 tactics related to retail choice programs. Fuel switching is possible if a customer
29 pays more for natural gas service as well as the potential for customer service

1 issues, then that customer may chose to replace his/her gas appliance(s) with
2 another fuel source.

3 **Q. WOULD ATMOS BE IN FAVOR OF FILING AN APPLICATION TO**
4 **ALLOW RETAIL CHOICE IN ITS CERTIFICATED AREA?**

5 A. No. As stated in my direct testimony and re-emphasized here, the Company has
6 no desire to file such an application. Conceptually, customer choice may sound
7 good because who does not want a choice; however, the Company does not see
8 where our customers would experience any cost savings and/or benefit in the long
9 run. This belief has been witnessed first hand in Georgia, Illinois and Kentucky,
10 and re-emphasized by the Commission's survey results in this case as well as the
11 overwhelming information on EIA's and other industry websites. It is unlikely
12 that a marketer could offer lower rates than Atmos or another LDC over the long
13 run. The LDC does not mark up the cost of gas, but that would not be the case for
14 marketers. Additionally, it is the Company's position that the costs and risks
15 associated with a retail competition program structured in the manner proposed by
16 the legislation are cost prohibitive for consumers and the Company. On a national
17 level, history has showed that customers have paid more, customer participation is
18 low, and deceptive marketing practices are common. The Company believes that
19 when evaluating all of these factors, retail choice has been and would continue to
20 not be beneficial to Kentucky customers.

21 **Q. DO CUSTOMERS ALREADY HAVE CHOICE?**

22 A. Yes, our existing customers already have a choice. The choice exists between
23 natural gas and other fuel sources. This choice drives us to be the low cost
24 provider for natural gas and will continue to guide us in that direction in the
25 future.

26 **Q. ARE THERE ANY ADDITIONAL ITEMS TO CONSIDER?**

27 A. Yes. As stated in my direct testimony, any and all costs associated with a retail
28 choice program should be borne by the marketers. The Company expects
29 negative impacts to franchise and school tax revenues as well as increased
30 operational and maintenance expenses. These increased expenses range from cost

1 impacts to the Company's call center to its billing system. The way that the
2 Company's franchise agreements are written with our cities, any retail choice
3 program would have a negative impact on the revenues that are remitted back to
4 our cities. The Company's franchise agreements contain language that calculates
5 the franchise fee based on a set percent of gross receipts per year from the
6 Company's sale of natural gas to all entities inside the City's corporate limits.
7 Even if the Company collected on its monthly invoice the revenue for a marketer
8 for gas it sold to the consumer, there are two potential issues. First, such revenue
9 would not be from the Company's sale of natural gas. Second, service rendered
10 by marketers probably would not be considered service as specified in the
11 Company's franchise agreements. Both of these issues would seem to call into
12 question, and perhaps preclude, the Company from charging a franchise fee based
13 on the marketer's sale of natural gas, even though the Company collected the
14 money. School tax revenues may also be negatively impacted by retail choice
15 programs. Also, any retail choice program may require that the Company have a
16 separate call center to handle customer requests related to such a program. It
17 would not be efficient to train all of our 300+ customer contact agents who serve
18 all of our states for a Kentucky specific program. The Company would be
19 required to hire, train and house additional agents and dedicate them to any
20 Kentucky specific retail choice program. Any retail choice program also would
21 require a new billing system to accommodate multiple rate options. The
22 Company's current billing system is not equipped to handle such options. This
23 modification of the Company's billing system could involve an expensive
24 upgrade to the current system, thus increasing costs to consumers.

25
26 **V. CONCLUSION**

27
28 **Q. DO YOU BELIEVE THAT RETAIL CHOICE PROGRAMS SAVE**
29 **CUSTOMERS MONEY?**

1 A. No. As outlined above, there is an abundance of evidence showing that retail
2 choice programs have created additional costs as well as risks for natural gas
3 customers.

4 **Q. SHOULD THE COMMISSION MANDATE RETAIL CHOICE**
5 **PROGRAMS?**

6 A. No. The Commission has the authority to approve retail choice programs, but the
7 Company does not believe that such programs are in the public interest, and
8 therefore, should not be mandated. The Company believes that each LDC is
9 uniquely situated and it should be up to each individual company to decide
10 whether to file an application to offer retail choice programs.

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 A. Yes.

BEFORE THE TENNESSEE REGULATORY AUTHORITY,
NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY)
CORPORATION FOR APPROVAL OF)
ADJUSTMENT OF ITS RATES AND)
REFISED TARIFF) DOCKET NO. 07-00020

REBUTTAL TESTIMONY OF PATRICIA CHILDERS
ON BEHALF OF ATMOS ENERGY CORPORATION

1 Q. PLEASE STATE YOUR NAME AND BUSINESS AFFILIATION.

2 A. My name is Patricia Childers. I am the Vice President of Rates and Regulatory
3 Affairs for the Kentucky/Mid-States Division of Atmos Energy Corporation. My
4 responsibilities include, among other things, the oversight of rates and regulatory
5 matters for the Kentucky/Mid-States Division of Atmos Energy Corporation
6 ("AEC" or the "Company").

7 Q. DID YOU FILE DIRECT TESTIMONY ON BEHALF OF THE COMPANY
8 IN THIS PROCEEDING?

9 A. Yes. In my direct testimony, I addressed the Company's proposal to implement
10 changes to its Rate Schedule 260 regarding transportation service provided by the
11 Company.

12 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

13 A. I am providing this testimony in rebuttal to specific issues raised in the direct
14 testimony of John Dosker, a witness for Stand Energy Corporation ("Stand"), as
15 well as issues raised by witnesses for the Atmos Intervention Group ("AIG")
16 including William H. Novak, Brent Phelts, and Daryl Gardner.

17 At the outset, I would like to note that Stand, through Mr. Dosker's testimony, has
18 raised a number of issues, contentions, and statements that are incorrect,
19 unsubstantiated, and have absolutely nothing to do with this docket. Stand's
20 attempt to cast irrelevant matters into this docket have caused me and the other

1 Company witnesses in this docket to spend an inordinate amount of time on
2 rebutting these issues, when Stand has come forward with nothing new to support
3 its untenable positions other than unsubstantiated claims of affiliate favoritism
4 and potential misconduct. Aside from this, such claims are being made by a
5 marketer that the Company provides no services to, which has no customers in
6 Tennessee that the Company currently provides any services to, or any
7 prospective customers that it anticipates that the Company will provide service to
8 any time soon.

9 **Q. WHAT ARE THE ISSUES RAISED BY MR. DOSKER THAT YOU**
10 **WOULD LIKE TO ADDRESS?**

11 A. Mr. Dosker has raised a number of issues in his direct testimony that are incorrect
12 or inaccurate. Many of these issues are addressed in the rebuttal testimony of
13 other Company witnesses, such as Kenneth Malter, Daniel Bertotti, and Michael
14 Ellis. The issues raised by Mr. Dosker that I will address include his statements
15 relating to the Company's Rate Schedule 640 in Virginia, his statement that AEC
16 is selling natural gas in Virginia at below cost, and Stand's proposal for a
17 Transportation Storage Option.

18 **Q. IS THE COMPANY'S VIRGINIA RATE SCHEDULE 640 AT ISSUE IN**
19 **THIS PROCEEDING?**

20 A. No. The Virginia State Corporation Commission (VSCC) has jurisdiction over
21 the Company's rates and services provided within the Commonwealth of
22 Virginia, while the Tennessee Regulatory Authority (TRA) has jurisdiction over
23 the Company's rates and services provided within the State of Tennessee.

24 **Q. WHAT STATEMENT DOES MR. DOSKER MAKE REGARDING THE**
25 **COMPANY'S RATE SCHEDULE 640 IN VIRGINIA?**

26 A. Mr. Dosker states in his testimony that (i) an unidentified customer in Bristol,
27 Virginia is receiving service under Rate Schedule 640 and paying a demand
28 charge equal to 12 times the amount of daily interstate pipeline electronic bulletin
29 board (EBB) capacity release rate, and (ii) that the capacity being utilized by this

1 customer is being subsidized by Tennessee ratepayers unless there is some credit
2 mechanism in place.¹

3 **Q. WHAT IS RATE SCHEDULE 640?**

4 A. This tariff, which has been approved by the VSCC and has been in place for a
5 number of years, is available to large commercial and industrial customers who
6 elect to subscribe to a daily minimum of 250 Mcf (2,500 Ccf) of natural gas on a
7 firm basis. The structure of this tariff is typically referred to as a “two-part” rate –
8 consisting of a demand charge and a commodity (or volumetric) charge. The
9 monthly demand charge applicable to customers electing to receive service under
10 this rate schedule is equal to their daily firm contracted demand quantity
11 multiplied by \$1.204 per one hundred cubic feet of gas (Ccf). This per Ccf rate of
12 \$1.2004 is comprised of a gas cost component of \$1.1901² and a small margin
13 component of \$.0103.

14 **Q. DOES A RATE SCHEDULE 640 CUSTOMER HAVE THE ABILITY TO**
15 **PROCURE ITS GAS COMMODITY FROM A PARTY OTHER THAN**
16 **THE COMPANY?**

17 A. Yes. A firm sales customer can elect to purchase its own gas supply from a third
18 party, such as a marketer, instead of the Company and instead receive
19 transportation service from the Company.

20 **Q. IF A RATE SCHEDULE 640 CUSTOMER ELECTS TO RECEIVE ONLY**
21 **TRANSPORTATION SERVICE FROM THE COMPANY, DOES THAT**
22 **CUSTOMER’S OBLIGATION TO CONTRIBUTE TO DEMAND COSTS**
23 **CEASE?**

24 A. No. The Company continues to hold and be billed for the capacity by the
25 applicable interstate pipeline and the cost does not go away simply because a
26 sales customer switches to transportation service. In fact, the VSCC, by
27 approving the Company’s Rate Schedule 640, has recognized that a customer may
28 purchase its own gas supply but it cannot leave stranded demand costs to be
29 absorbed by the other firm service ratepayers such as residential and small

¹ Direct Testimony of John M. Dosker, p. 8, lines 11-26.

² This amount is an aggregate of the upstream pipeline demand rates for East Tennessee Natural Gas and Tennessee Gas Pipeline.

1 commercial. A Rate Schedule 640 customer who elects to receive transportation
2 service in lieu of sales service continues to pay the same demand charge.

3 **Q. DOES THE COMPANY HAVE THE OPTION OF RELEASING A RATE**
4 **SCHEDULE 640 TRANSPORTATION CUSTOMER'S CONTRACTED**
5 **DEMAND CAPACITY TO A MARKETER?**

6 A. Yes. The Company has the option, but not the obligation, to do so. If the
7 Company elects to release the customer's contracted demand capacity to the
8 customer's designated marketer, then the marketer holds the capacity for the
9 customer as long as the customer continues to purchase gas from the marketer. If
10 the marketer and customer cease to use this capacity for the transportation and
11 purchase of natural gas, then the capacity returns back to the Company. This
12 provision was proposed by the Company, and approved by the VSCC, in the
13 Company's 2004 general rate case in Virginia.³ Although Mr. Dosker intimates
14 that he did not see a corresponding capacity release on the applicable interstate
15 pipeline EBB for a Virginia Rate Schedule 640 customer he has not identified⁴,
16 that is not all that surprising considering that the Company's tariff explicitly states
17 that the capacity will be released to the customer's marketer, not the customer.
18 To the extent that the commodity requirements of a Virginia Rate Schedule 640
19 customer are provided by Atmos Energy Marketing, LLC ("AEM") (which is also
20 the Company's current asset manager), then the Company receives a credit from
21 AEM on account of that customer equivalent to the customer's contract demand
22 times the tariff demand rate, and the credit flows back through the Company's
23 purchased gas adjustment clause in Virginia.

24 **Q. DOES A CUSTOMER THAT IS ELIGIBLE FOR TRANSPORTATION**
25 **SERVICE UNDER RATE SCHEDULE 640 IN VIRGINIA ALWAYS**
26 **HAVE TO RELY UPON THE COMPANY FOR CAPACITY?**

27 A. No. If the customer has alternative fuel capability and meets the volumetric
28 eligibility threshold, the customer can elect to receive optional gas service under
29 Rate Schedule 650, which also includes the transportation option. Under Rate

³ *Application of Atmos Energy Corporation for an Increase in Rates*; Case No. PUE-2003-00507, filed with the VSCC on February 27, 2004.

⁴ Direct Testimony of John M. Dosker, p. 8, lines 11-26.

1 Schedule 650, a customer does not pay the demand rate provided for in Rate
2 Schedule 640.

3 **Q. DOES THE COMPANY HAVE A RATE SCHEDULE IN TENNESSEE**
4 **THAT IS COMPARABLE TO THE VIRGINIA RATE SCHEDULE 640?**

5 A. Yes. In Tennessee, the applicable tariff is Rate Schedule 240, except that the
6 annual eligibility threshold is 27,000 Mcf. The demand charge payable under
7 Tennessee Rate Schedule 240 is \$1.6283 per Ccf. However, when a customer in
8 Tennessee receiving sales service under Rate Schedule 240 elects to receive
9 transportation service from the Company under Rate Schedule 260 and purchase
10 its commodity requirements from a third party such as a marketer, it no longer
11 pays the interstate pipeline demand rate component of the Rate Schedule 240
12 demand charge.

13 **Q. WHY IS THAT?**

14 A. Because Rate Schedule 260 specifically states that a transportation customer in
15 Tennessee is responsible for making all arrangements for transporting the gas
16 from its source of supply to the Company's city gate (unless other arrangements
17 have been made between the Customer and the Company), meaning that the
18 customer and/or its marketer must have its own interstate pipeline system
19 transportation arrangements.

20 **Q. WHAT DOES ALL OF THIS MEAN, THEN?**

21 A. That Tennessee ratepayers are not subsidizing service to large volume customers
22 in Virginia. Those firm customers who elect to receive service from the Company
23 in reliance on the Company's capacity assets, whether sales or transportation, pay
24 a demand charge associated with those assets. Those Virginia customers who
25 elect to receive optional service do not pay for demand because they have
26 alternative fuel capabilities upon which they can rely in the event of service
27 interruption by the Company. It is the same way in Tennessee. Eligible
28 customers who elect to receive transportation service under Rate Schedule 260 do
29 not have to pay demand charges because they are not reliant upon the Company
30 for their upstream transportation requirements.

1 **Q. DO TENNESSE AND VIRGINIA RATEPAYERS SHARE DEMAND**
2 **COSTS?**

3 A. Yes, demand costs are allocated based upon jurisdictional design day demand
4 studies that the Company is required to prepare and file with the TRA and the
5 VSCC annually as part of its actual cost adjustment (ACA) filing in each state.
6 The updated allocation was required by the TRA in Docket No. 05-00253 and the
7 annual filing requirement was adopted by the VSCC in Case No. PUE-2007-
8 00019.⁵ The current allocation of demand is 64% to Tennessee and 36% to
9 Virginia. An updated demand allocation study will be filed with both agencies by
10 July 1, 2008.

11 **Q. DOES MR. DOSKER MAKE ANY UNSUPPORTED STATEMENTS**
12 **WITH RESPECT TO GAS COST IN VIRGINIA?**

13 A. Yes. Mr. Dosker has apparently concluded, based upon his review of the
14 Company's 25-month history of purchased gas adjustment clauses in Virginia,
15 that the Company is selling gas at below cost. He makes reference to the monthly
16 NYMEX gas prices and AEC's PGA rates in Tennessee for purposes of
17 comparison against AEC's PGA rates in Virginia, but he does not provide any
18 NYMEX gas price data in his testimony. A comparison of the Tennessee and
19 Virginia PGA rates and NYMEX gas price data is, however, addressed more fully
20 in Mr. Kenneth Malter's rebuttal testimony.

21 **Q. CAN YOU EXPLAIN THE DIFFERENCE BETWEEN THE PGA**
22 **PRICINGS EXHIBITED IN MR. DOSKER'S EXHIBIT 2?**

23 A. Yes. The Company does not file monthly changes to its PGA in Tennessee, but is
24 required to file monthly in Virginia. For Tennessee, the Company uses a
25 weighted, six-months' projected NYMEX price. For Virginia, the Company uses
26 a current month's NYMEX price in its monthly PGA filing. Therefore, any
27 difference in commodity rates between the Tennessee and Virginia PGAs is not
28 attributable to the commodity price but instead to the timing of the filings made

⁵ In this docket, the Company sought permission from the VSCC to recover approximately \$1.355 million in prospective demand costs that shifted to Virginia from Tennessee as a result of the re-allocation stemming from TRA Docket No. 05-00253. The VSCC denied recovery and the Company wrote off these costs. There simply exists no basis for Mr. Dosker's claim of subsidization by Tennessee ratepayers for Virginia customers.

1 with the TRA and the VSCC. Both the TRA and the VSCC conduct annual audits
2 to verify that commodity purchases are priced the same for both Virginia and
3 Tennessee ratepayers.

4 **Q. DOES MR. DOSKER POSIT ANY FURTHER UNSUPPORTED**
5 **THOUGHTS REGARDING THE COMPANY'S SERVICE IN VIRGINIA?**

6 A. Yes. Mr. Dosker concludes that since Bristol, which is situated on the border of
7 both Tennessee and Virginia, is one physical distribution system served by the
8 same interstate pipeline, that the existing "disparity" in transportation rates (and,
9 supposedly, commodity rates) warrants further investigation.⁶

10 **Q. HOW DO YOU RESPOND TO THESE ASSERTIONS?**

11 A. The rates charged by the Company in the City of Bristol have been subject to
12 regulation by the TRA and the VSCC for decades. The TRA approves the rates
13 for the portion of the system in Tennessee and cannot determine rates for
14 customers in Virginia. The VSCC approves the rates for the portion of the system
15 in Virginia and cannot determine rates for customers in Tennessee. To the extent
16 that Mr. Dosker suggests that the TRA should investigate rates charged to
17 customers in Virginia and approved by the VSCC, then such a request should be
18 rejected. To the extent that Mr. Dosker's suggestion is an invitation to re-open
19 the Company's distribution rates in Tennessee that were or could have been
20 litigated in the Company's recent general rate proceeding in TRA Docket No. 07-
21 00105, then such a request should also be rejected.

22 With respect to commodity rates, I have already addressed that issue in
23 connection with the discussion above of the Company's PGAs in both Tennessee
24 and Virginia. The commodity rates are the same. Mr. Dosker just does not have
25 all the facts or lacks an understanding of the way the PGAs work.

26 **Q. DO YOU HAVE ANY COMMENTS CONCERNING MR. DOSKER'S**
27 **PROPOSAL THAT AEC OFFER A TRANSPORTATION STORAGE**
28 **OPTION?**

29 A. Yes. Both AIG and Stand were proponents of such a proposal in TRA Docket
30 No. 07-00105, but elected not to pursue that proposal at hearing. Stand did not

⁶ Direct Testimony of John M. Dosker, p. 9, lines 6-16.

1 even raise this as a proposal for incorporation into AEC's revised Rate Schedule
2 260 until Stand filed its direct testimony and after discovery had already been
3 concluded. Moreover, no AIG witness has even proposed this mechanism in this
4 proceeding and Stand attempts to make reference to testimony filed in the 105
5 docket for this purpose. The TRA should reject this proposal.

6 **Q. DO YOU HAVE ANY MORE COMMENTS ON MR. DOSKER'S**
7 **TESIMONY?**

8 A. On page 13 of his direct testimony, Mr. Dosker makes reference to Rob Ellis, who
9 works for AEM and is not a witness in this proceeding. Instead, Mr. Michael
10 Ellis, who is the Vice President of Marketing for the Company's Kentucky/Mid-
11 States Division, is a witness in this docket.

12 On page 14, lines 12-20 of his direct testimony, Mr. Dosker suggests that the
13 Company's interstate pipeline capacity should be unbundled as suggested by Mr.
14 Novak in Docket No. 07-00105. Again, the parties have already been through all
15 of this in the general rate case and the Company urges the TRA to reject Stand's
16 continued attempts to re-litigate matters that it failed to pursue or prevail on in the
17 105 docket.

18 On page 14, lines 21-27 and page 15, lines 1-2, Mr. Dosker discusses pooling as if
19 it is something that the Company is contesting. The Company is the proponent of
20 this tariff provision and, insofar as I am aware, no party to this proceeding has a
21 problem with this proposal.

22 **Q. DO YOU HAVE ANY COMMENTS ON THE DIRECT TESTIMONY**
23 **FILED BY W. BRENT PHELTS ON BEHALF OF AIG?**

24 A. Yes, I will address several areas covered in Mr. Phelts testimony including (i)
25 monitoring costs and fees for transportation customers⁷, (ii) competition in the
26 Georgia market⁸ and (iii) lost and unaccounted for gas.

27 **Q. WHAT ISSUE DOES MR. PHELTS HAVE WITH RESPECT TO**
28 **TRANSPORTATION CUSTOMER MONITORING COSTS AND FEES?**

⁷ Direct Testimony of W. Brent Phelts, p. 3.

⁸ *Id.* at pp. 3-4.

1 A. On page 3 of his testimony, Mr. Phelts contends that very few industrial
2 customers possess real-time gas consumption monitoring equipment, thereby
3 making it nearly impossible for them to make intra-day adjustments to their
4 volumes in order to stay in balance. However, both Rate Schedules 250 and 260
5 currently require these customers to have electronic metering equipment and this
6 requirement has been in place for quite some time. In this same vein, Mr. Dosker
7 has suggested that the Company only be allowed to charge customers the actual
8 cost of the least expensive telemetry equipment capable of managing imbalances
9 before OFO and balancing penalties can be imposed.⁹ However, telemetry is
10 already in place for all transportation customers.

11 **Q. HOW DO YOU RESPOND TO MR. PHELTS' DISCUSSION**
12 **REGARDING COMPETITION IN THE GEORGIA MARKET?**

13 A. Although I question the relevancy of this whole discussion, a substantial factual
14 matter that Mr. Phelts conveniently fails to mention concerns the unbundled
15 nature of Atlanta Gas Light's (AGL) system in Georgia. Specifically, AGL is an
16 electing distribution company under the Georgia 1997 Natural Gas Deregulation
17 Act, which allows virtually all customers (residential, commercial, etc.) behind
18 AGL's city gate to choose to purchase their gas commodity needs from a
19 marketer. In connection with this unbundling, AGL went through an extremely
20 long and complicated process of allocating or apportioning upstream interstate
21 pipeline capacity between suppliers and marketers through a process approved by
22 the Federal Energy Regulatory Commission. The Company, however, does not
23 operate an unbundled distribution system in Georgia, and a valid comparison
24 cannot be made between the Company's system and AGL's system.

25 **Q. WHAT PROPOSAL DOES MR. PHELTS' MAKE WITH RESPECT TO**
26 **LOST AND UNACCOUNTED FOR GAS?**

27 A. Mr. Phelts has apparently concluded that an L&U factor used by AGL in Georgia
28 is appropriate for the Company in Tennessee. In Georgia Public Service
29 Commission (GPSC) Docket 15527-U, a general rate proceeding initiated by
30 AGL, AGL (through the testimony of Mr. Richard Lonn) proposed an L&U factor

⁹ Direct Testimony of John M. Dosker, p. 15, lines 3-17.

1 to be applied equally to all customer classes based upon a rolling 12-month
2 average. Mr. Lonn stated in his filed testimony that the latest data available on an
3 industry-wide basis suggested that an L&U factor of 2.52% was appropriate.

4 As Mr. Phelts points out in his direct testimony, AGL's proceeding was ultimately
5 resolved through a joint settlement between AGL, the GPSC staff and the
6 intervening parties. As part of this settlement, any L&U factor greater than 0.8%
7 applicable to interruptible customers, up to a ceiling of 1.6%, is shifted to firm
8 customers. A stipulated settlement provision in Georgia involving a completely
9 different company should carry absolutely no weight whatsoever in this docket.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 **A. Yes.**

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY)
CORPORATION FOR APPROVAL OF)
ADJUSTMENT OF ITS RATES AND)
REFISED TARIFF) DOCKET NO. 07-00020

REBUTTAL TESTIMONY OF MICHAEL H. ELLIS
ON BEHALF OF ATMOS ENERGY CORPORATION

1 Q. PLEASE STATE YOUR NAME AND BUSINESS AFFILIATION.

2 A. My name is Michael H. Ellis. I am the Vice President of Marketing for the
3 Kentucky/Mid-States Division of Atmos Energy Corporation. My responsibilities
4 include, among other things, the oversight of the marketing efforts and programs
5 for the Kentucky/Mid-States Division of Atmos Energy Corporation ("AEC",
6 "Atmos" or the "Company").

7 Q. DID YOU FILE DIRECT TESTIMONY ON BEHALF OF THE COMPANY
8 IN THIS PROCEEDING?

9 A. Yes. In my direct testimony, I addressed the Company's proposal to implement
10 changes to its Rate Schedule 260 regarding transportation service provided by the
11 Company.

12 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

13 A. I am providing this testimony in rebuttal to specific issues raised in the direct
14 testimony of John Dosker, a witness for Stand Energy Corporation ("Stand").
15 At the outset, I would like to note that Stand, through Mr. Dosker's testimony, has
16 apparently confused me with Mr. Rob Ellis, who is a Senior Vice President of
17 Atmos Energy Marketing, LLC ("AEM").¹ Insofar as I am aware, Rob Ellis is
18 not a witness in this docket nor is AEM a party to this docket.

¹ Direct Testimony of John M. Dosker, pp. 12-15.

1 Q. WHAT ARE THE ISSUES RAISED BY MR. DOSKER THAT YOU
2 WOULD LIKE TO ADDRESS?

3 A. Mr. Dosker has raised a few issues in his direct testimony that are incorrect or
4 inaccurate. The first such issue concerns his assertion that Atmos Energy
5 proposed changes to its transportation tariff only after the Consumer Advocate
6 and Protection Division of the Tennessee Attorney General's Office ("CAPD")
7 and the Atmos Intervention Group suggested there were problems.² The second
8 issue concerns a visit by Stand Energy to one of the Company's customers in
9 Virginia.³ The last issue raised by Mr. Dosker that I will address concerns his
10 allegations of predatory behavior on the part of my marketing employees.⁴

11 Q. PLEASE ADDRESS THE FIRST ISSUE.

12 A. Mr Dosker makes the statement on page 13 of his testimony that "Only after the
13 CAPD and the AIG suggested there were problems with the way Atmos was
14 conducting business were changes proposed to Rate Schedule 260". Mr. Dosker is
15 completely mistaken and apparently failed to read my pre-filed testimony in this
16 case. As Mr. Daniel Bertotti will address in more detail in his rebuttal testimony,
17 and as I stated quite clearly in my pre-filed testimony, employees in my
18 department, including Mr. Bertotti, began working on drafts of changes to our
19 transportation tariff well over two years ago. After several months of work by
20 these employees and after meetings with myself and others in our company, Mr.
21 Bertotti and Ms. Patricia Childers met with TRA staff beginning in August 2005
22 to present our proposed changes to this tariff. Again as I stated in my earlier
23 testimony, "these changes were drafted based on the combination of input from
24 customers, input from the Company's gas supply department, and changes we
25 were seeing in the transportation market".

26 Q. PLEASE ADDRESS THE SECOND ISSUE.

27 A. Mr. Dosker states that a Stand Energy employee recently had a discussion with a
28 customer of the Company in Bristol, Virginia that is receiving service of 400 Mcf

² *Id.*, p. 13, lines 8-14.

³ *Id.*, p. 8, lines 10-18.

⁴ *Id.*, p. 10, lines 1-17.

1 of natural gas per day under the Company's Rate Schedule 640⁵ in Virginia.
2 However, I believe this information to be incorrect.

3 **Q. PLEASE EXPLAIN.**

4 A. The Company has only one customer in Bristol, Virginia that is currently
5 receiving service under Rate Schedule 640, but that customer's daily demand is
6 only about 60% of the 400 Mcf/day discussed by Mr. Dosker. Instead, I believe
7 that the discussion to which Mr. Dosker is referring concerns a customer in
8 Pulaski, Virginia, which is some 90 miles away from Bristol, Virginia.

9 **Q. WHY DO YOU BELIEVE THE CUSTOMER TO WHICH MR. DOSKER**
10 **REFERS IS IN PULASKI?**

11 A. On January 8, 2008, a member of my marketing staff met with a representative of
12 the customer in Pulaski (which receives transportation service from the Company)
13 and a representative of Stand in order to explain Rate Schedule 640. The
14 customer apparently desires to reduce its cost associated with paying monthly
15 demand charges under Rate Schedule 640, and we explained that, if the customer
16 has sufficient alternative fuel capability and continues to meet the eligibility
17 requirements of the tariff, then the customer may be able to switch to service
18 under Rate Schedule 650 and pay no monthly demand charges associated with
19 interstate pipeline capacity. It would then be up to the customer and/or its
20 marketer to ensure that it held upstream pipeline transportation capabilities in
21 order to deliver its commodity requirements to the Company's city gate in
22 Pulaski.

23 **Q. DOES THE COMPANY HAVE THE OPTION OF RELEASING A RATE**
24 **SCHEDULE 640 TRANSPORTATION CUSTOMER'S CONTRACTED**
25 **DEMAND CAPACITY TO A MARKETER?**

26 A. Yes. The Company has the option, but not the obligation, to do so. If the
27 Company elects to release the customer's contracted demand capacity to the
28 customer's designated marketer, then the marketer holds the capacity for the
29 customer as long as the customer continues to purchase gas from the marketer. If
30 the marketer and customer cease to use this capacity for the transportation and

⁵ A discussion of this rate schedule is set out in the rebuttal testimony of Mrs. Patricia Childers.

1 purchase of natural gas, then the capacity returns back to the Company. I
2 sponsored the inclusion of this provision, and it was approved by the Virginia
3 State Corporation Commission, in the Company's 2004 general rate case in
4 Virginia.⁶ If the Company releases capacity under this mechanism, it is released
5 to the customer's designated marketer, not the customer.

6 **Q. DID THE COMPANY EXPLAIN THIS TO THE CUSTOMER AT THE**
7 **MEETING IN PULASKI, VIRGINIA?**

8 A. Yes. It is my understanding that the customer and Stand both understood the
9 release mechanism after the meeting.

10 **Q. DOES A CUSTOMER THAT IS ELIGIBLE FOR TRANSPORTATION**
11 **SERVICE UNDER RATE SCHEDULE 640 IN VIRGINIA ALWAYS**
12 **HAVE TO RELY UPON THE COMPANY FOR CAPACITY?**

13 A. No. As I previously explained, if the customer has alternative fuel capability and
14 meets the volumetric eligibility threshold, the customer can elect to receive
15 optional gas service under Rate Schedule 650, which also includes the
16 transportation option. Under Rate Schedule 650, a customer does not pay the
17 demand rate provided for in Rate Schedule 640.

18 **Q. WOULD YOU CARE TO ADDRESS MR. DOSKER'S STATEMENTS**
19 **CONCERNING ALLEGED PREDATORY BEHAVIOR BY COMPANY**
20 **EMPLOYEES?**

21 A. Yes. Mr. Dosker alleges in his testimony that, within the last year, that customers
22 in Tennessee were told that the Company could not guarantee deliveries of
23 transportation gas if these customers procured their commodity from Stand, and
24 that AEC employees have shared Stand's customer pricing quotes with AEM
25 representatives. However, this is simply not the case.

26 **Q. PLEASE EXPLAIN.**

27 A. Mr. Dosker makes two very strong allegations about the actions and behaviors of
28 what one would have to assume are employees under my direction. I take these
29 allegations very seriously as such behavior by our employees would be

⁶ *Application of Atmos Energy Corporation for an Increase in Rates*; Case No. PUE-2003-00507, filed with the VSCC on February 27, 2004.

1 unacceptable and would subject those employees to serious disciplinary action. I
2 would point out that Mr. Dosker does not name those employees, nor does he
3 name the customers, nor does he cite any specific locations or dates. While I
4 might appreciate his attempt at discretion, I actually believe these omissions
5 indicate that he is simply speculating, guessing, or that any information he has
6 regarding such alleged behavior is inaccurate.

7 **Q. HAVE YOU DISCUSSED THE ALLEGATIONS MADE BY STAND WITH**
8 **YOUR MARKETING REPRESENTATIVES?**

9 A. Yes. There are two employees in my department that serve our large industrial
10 customers in Tennessee and a third that has those responsibilities in Virginia. I
11 have interviewed each of these employees one-on-one about Mr. Dosker's
12 allegations and my confidence is re-affirmed in how they work with both our
13 industrial customers and with all current and potential marketers, consultants, and
14 other such third parties in our industrial market.

15 **Q. WHY IS THAT?**

16 A. I think it is obvious to all who have an understanding of our customer base
17 and our revenue streams in Tennessee and Virginia that our industrial customers
18 are extremely important to us. This is why we dedicate resources, in this case
19 Industrial Sales Representatives, to these customers. The three employees I'm
20 referring to have all been in their jobs in these specific territories without
21 interruption for almost twenty years. They know their customers very well and
22 each is well-respected and valued by those customers. Our customers have come
23 to rely on these three gentlemen and as a result, our customers do indeed ask their
24 advice and opinions on matters. These gentlemen have all been trained and
25 educated in understanding, explaining, and administering the rules of our tariffs.

26 **Q. HOW DO AEC'S CUSTOMERS RELY UPON THESE INDIVIDUALS**
27 **FOR ADVICE?**

28 A. We frequently receive inquiries from customers about switching from sales to
29 transportation and also about choosing marketers. Our answers are standard and
30 consistent. We tell customers that transportation service is an excellent way to
31 manage their gas costs; not just for price but for predictability as well. While price

1 is an issue for industrial customers, minimizing price fluctuation is at least as
2 important. Further, we consistently tell customers that they may choose any
3 marketer they wish. Transportation service and sales service results in the same
4 margins to the Company, so the Company is indifferent as to what service the
5 customer desires to use. We do caution customers about ensuring the
6 transportation service they contract for matches their current sales service,
7 meaning firm or interruptible.

8 **Q. WHAT IF A CUSTOMER WANTS TO SWITCH FROM AN EXISTING**
9 **FIRM SERVICE TO INTERRUPTIBLE SERVICE?**

10 A. In that case, we fully explain to that customer the nature of interruptible service
11 and, if the applicable tariff so provides, that the customer must ensure that it has a
12 sufficient alternative fuel capability upon which it can rely in the event natural gas
13 service is curtailed or interrupted, so that the customer's operations can continue
14 with minimal disruption until such time as full natural gas service resumes.

15 **Q. HAVE ANY OF YOUR EMPLOYEES EVER TOLD A CUSTOMER THAT**
16 **ATMOS ENERGY COULD NOT "GUARANTEE" DELIVERY OF GAS IF**
17 **IT CAME FROM STAND ENERGY?**

18 A. Absolutely not. In my discussion with my employees in Tennessee, they could
19 not recall a customer ever having asked them anything about Stand.

20 **Q. HAVE THESE EMPLOYEES EVER TOLD A CUSTOMER THAT GAS**
21 **SUPPLIES OF ANY KIND MIGHT NOT BE GUARANTEED TO BE**
22 **DELIVERED?**

23 A. Yes. We have had some experiences in the past where a marketer sold one of our
24 customers what is known as "Secondary" firm service. That type of service from
25 the pipeline cannot be guaranteed to be delivered on a firm basis during
26 curtailments or OFO periods.

27 **Q. WHAT IS "SECONDARY" FIRM SERVICE AND HOW DOES IT**
28 **DIFFER FROM "PRIMARY" FIRM SERVICE?**

29 A. Basically, secondary firm service on the pipeline upstream of the Company's city
30 gate is a lower priority service that pipelines may make available. On perhaps
31 most days, this service would be "firm" but since it is considered secondary at the

1 pipeline's delivery point to primary firm service, it can be subject to curtailment.
2 This means that during certain times this otherwise firm gas might be unavailable
3 to the Company to re-deliver to the customer and, as such, might be curtailed
4 during *Operational Flow Order periods or other curtailment instances.*

5 **Q. HAVE ANY OF YOUR EMPLOYEES EVER SPOKEN TO**
6 **REPRESENTATIVES OF ATMOS ENERGY MARKETING ABOUT**
7 **EITHER SPECIFIC PRICES OR OFFERS MADE BY STAND ENERGY**
8 **TO A CUSTOMER?**

9 A. Absolutely not. Not only would we not do that, we could not do that as we have
10 no knowledge of or access to Stand's pricing information.

11 **Q. DOES STAND ENERGY SERVE ANY OF THE COMPANY'S**
12 **INDUSTRIAL CUSTOMERS IN TENNESSEE?**

13 A. No, they do not.

14 **Q. DOES STAND ENERGY SERVE ANY OF THE COMPANY'S**
15 **INDUSTRIAL CUSTOMERS IN VIRGINIA?**

16 A. Yes, they do. In fact, my representative in Virginia has worked with Stand Energy
17 and their customers on several occasions in the past. The meeting I referred to
18 earlier with our customer in Pulaski, Virginia is an example. And, I might add,
19 that until we learned of Stand's intervention in this case, we believed our
20 relationship and partnership with them and our Virginia customers was quite
21 good.

22 **Q. HAVE YOU OR ANY OF YOUR EMPLOYEES EVER HEARD**
23 **REPRESENTATIVES FROM STAND ENERGY COMPLAIN ABOUT**
24 **THEIR RELATIONSHIPS WITH ATMOS ENERGY IN TENNESSEE OR**
25 **THEIR CHALLENGES IN DOING BUSINESS IN TENNESSEE?**

26 A. Not a word. If Stand, or any other marketer for that matter, has intentions of
27 entering the Tennessee market to compete for the gas commodity business of
28 industrial customers or other eligible transportation customers, then they are more
29 than welcome so long as AEC's firm sales customers are not required to subsidize
30 the marketer's business activities. As I stated previously, AEC is economically
31 indifferent as to whether a customer receives sales service or transportation

1 service from AEC because its margin on both services is the same and AEC
2 makes no profit on the commodity.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A. Yes.**

5

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY)
CORPORATION FOR APPROVAL OF)
ADJUSTMENT OF ITS RATES AND)
REFISED TARIFF) DOCKET NO. 07-00020

REBUTTAL TESTIMONY OF KENNETH MALTER
ON BEHALF OF ATMOS ENERGY CORPORATION

- 1 Q. PLEASE STATE YOUR NAME AND BUSINESS AFFILIATION.
- 2 A. My name is Kenneth Malter. I am the Director of Gas Supply for Atmos Energy
- 3 Corporation. My responsibilities include, among other things, the oversight of
- 4 gas supply commodity and capacity procurement for the Kentucky/Mid-States
- 5 Division of Atmos Energy Corporation ("AEC" or the "Company").
- 6 Q. DID YOU FILE DIRECT TESTIMONY ON BEHALF OF THE COMPANY
- 7 IN THIS PROCEEDING?
- 8 A. Yes. In my direct testimony, I addressed the Company's proposal to implement
- 9 daily scheduling fees as part of revisions to its Rate Schedule 260 regarding
- 10 transportation service provided by the Company.
- 11 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?
- 12 A. I am providing this testimony in rebuttal to specific issues raised in the direct
- 13 testimony of John Dosker, a witness for Stand Energy Corporation ("Stand"). I
- 14 am also providing testimony with respect to daily scheduling fees which
- 15 Columbia Gulf Transmission Corporation, one of the interstate pipelines that
- 16 serves the Company's Tennessee operations, will begin imposing May 1, 2008.
- 17 Q. WHAT ARE THE ISSUES RAISED BY MR. DOSKER THAT YOU
- 18 WOULD LIKE TO ADDRESS?
- 19 A. Mr. Dosker has raised a number of issues in his direct testimony that are incorrect
- 20 or inaccurate. Many of these issues are addressed in the rebuttal testimony of

1 other Company witnesses, such as Patricia Childers, Daniel Bertotti and Michael
2 Ellis. The issues raised by Mr. Dosker that I will address include his statements
3 relating to interstate pipeline capacity held by the Company, the sharing of gas
4 supply resources by AEC and Atmos Energy Marketing, LLC ("AEM"), Mr.
5 Dosker's statements concerning gas purchases by AEC from AEM, his statement
6 that AEC is selling natural gas in Virginia at below cost, and Stand's proposal for
7 a Transportation Storage Option.

8 **Q. WHAT STATEMENT DOES MR. DOSKER MAKE REGARDING THE**
9 **AMOUNT OF INTERSTATE PIPELINE CAPACITY HELD BY THE**
10 **COMPANY?**

11 A. Apparently Mr. Dosker believes that the Company has contractual rights to most
12 of the firm interstate pipeline capacity into Tennessee.¹ The interstate pipelines
13 on which the Company holds firm capacity for purposes of serving its customers
14 in Tennessee include Texas Gas Transmission (TGT), East Tennessee Natural
15 Gas (ETN), Columbia Gulf Transmission (CGT), Texas Eastern Transmission
16 (TETCO), Dominion Transmission (DT) (storage service only), Tennessee Gas
17 Pipeline (TGP) and Southern Natural Gas (SNG).

18 **Q. HOW MUCH CAPACITY DOES THE COMPANY HOLD ON THESE**
19 **INTERSTATE PIPELINES COMPARED TO TOTAL PIPELINE**
20 **CAPACITY?**

21 A. As an example we can look at TETCO, a Spectra Energy pipeline. On its LINK
22 (electronic bulletin board, or "EBB"), TETCO reports that it operates a 10,000
23 mile pipeline system with peak-day operational capacity of about 5.7 billion cubic
24 feet of gas. For its Tennessee operations, the Company subscribes to 6,000
25 dekatherms (or about 6 million cubic feet) of firm capacity on TETCO. For
26 TETCO Zones M1-M2 (in which Tennessee is located), TETCO showed on its
27 EBB unsubscribed available capacity of 78,000 dekatherms (about 78 million
28 cubic feet) as of December 1, 2007.

29 Another example we can look at is ETN, another Spectra Energy pipeline, on
30 which the Company holds a much greater amount of capacity. On its LINK EBB,

¹ Pre-Filed Testimony of John M. Dosker, p. 4, lines 7-9.

1 ETN reports that its system has a design capacity of 700 MMcf (700 million cubic
2 feet) per day. For its Tennessee and Virginia operations, the Company subscribes
3 to about 165,000 dekatherms (or about 165 million cubic feet) of firm capacity on
4 the ETN system. For ETN's East Tennessee system, ETN showed on its EBB
5 unsubscribed available capacity of 69,000 dekatherms (about 69 million cubic
6 feet) as of November 1, 2007.

7 The amount of capacity held by the Company on the other interstate pipelines for
8 its Tennessee operations (TGT, SNG, DT and TGP) are nowhere near the
9 respective pipelines' capacities.

10 **Q. DO ANY OTHER LOCAL DISTRIBUTION COMPANIES IN**
11 **TENNESSEE HOLD ANY CAPACITY ON THESE INTERSTATE**
12 **PIPELINES?**

13 A. Yes. Each interstate pipeline maintains on its website a list of customers and the
14 amount of firm capacity held by each customer. I will specifically address ETN,
15 though, because that system appears to be the one that is of the most concern to
16 the intervenors, and is also the pipeline upon which the Company holds a large
17 amount of firm capacity. According to ETN's index of customers on its EBB,
18 some of the other significant holders of firm capacity on ETN include
19 Chattanooga Gas Company, with approximately 41,000 dekatherms of firm
20 capacity, the Knoxville Utilities Board (KUB), with approximately 157,000
21 dekatherms of firm capacity, and Piedmont Natural Gas, with about 45,000
22 dekatherms of firm capacity.

23 **Q. WHAT IS THE SIGNIFICANCE OF THE INFORMATION YOU HAVE**
24 **PROVIDED REGARDING INTERSTATE PIPELINE CAPACITY?**

25 A. This information is important for the Tennessee Regulatory Authority (TRA) to
26 consider in the context of Mr. Dosker's unsupported statement because it shows
27 that the Company does not have contractual rights to most of the firm capacity of
28 the interstate pipelines serving the Company's local distribution properties in
29 Tennessee.

30 **Q. HAS THE COMPANY RELEASED ALL OF ITS FIRM CAPACITY TO**
31 **AEM?**

1 A. No. Contrary to Mr. Dosker's testimony, the Company has only released part of
2 its capacity to AEM pursuant to the terms of the current asset management
3 agreement (which expires on March 31, 2008) that is the subject of another docket
4 pending before the TRA. Moreover, the Company's capacity actually released to
5 AEM is fully recallable at any time by AEC for the primary use to serve the
6 Company's customers in Tennessee.

7 **Q. WHY DOES MR. DOSKER DISCUSS INTERSTATE PIPELINE**
8 **CAPACITY?**

9 A. I am not entirely certain. In its discovery responses, Stand stated that it had not
10 sold gas or gas related services to any customer located within the Atmos service
11 areas in Tennessee within the last 24 months.² With respect to the one customer
12 that Stand does have in Tennessee, Stand stated that the customer would not, to
13 the extent it elected to use natural gas as part of its fuel requirement, require firm
14 transportation service and would instead use interruptible service³, which is
15 available on the interconnecting interstate pipeline.⁴ Although Stand did say that
16 it expected to sell gas or gas related services to new customers in Tennessee
17 within the next 12 months, it objected to providing any information on such
18 potential customers on grounds of confidentiality.⁵ Stand did state, however, that
19 it did not know the type of service that any of these customers would require that
20 the contractual, economic or other terms under which these customers would
21 purchase gas or gas related services from Stand is speculative.⁶ Considering that
22 Stand does not have any current customers who use gas service in Tennessee and
23 that it does not know what gas service its prospective customers (to the extent
24 there are any) in Tennessee would require, it does not appear to me that the issues
25 surrounding the availability of interstate pipeline capacity have anything to do
26 with Stand or with this docket.

² Response of Stand Energy Corporation to First Discover Requests of Atmos Energy Corporation, Response to Question No. 1.

³ *Id.*, Response to Question 7(c).

⁴ *Id.*, Response to Question 7(d).

⁵ *Id.*, Response to Question 3.

⁶ *Id.*, Response to Question 4.

1 Q. DO YOU HAVE ANY CONCERNS WITH MR. DOSKER'S TESTIMONY
2 REGARDING SHARED SERVICES BETWEEN THE COMPANY AND
3 AEM?

4 A. Yes. In his testimony, Mr. Dosker states that the Company and AEM share gas
5 purchasing and supply services.⁷ That is not a correct statement. My department
6 (Atmos' Gas Supply Department) does not provide any purchasing or supply
7 services to AEM or its customers because AEM is responsible for procuring its
8 own customer commodity requirements. In fact, AEM maintains its own credit
9 facility separate from that of the utility primarily for that purpose. Moreover,
10 AEM has provided only a nominal amount of commodity to the utility in
11 Tennessee that is primarily comprised of a periodic peaking quantity off of SNG
12 that is purchased at an index-based price.⁸ The vast majority of the Company's
13 commodity requirements for its Tennessee customers is instead currently obtained
14 from third-party suppliers at index-based prices. There are no, as Mr. Dosker
15 categorizes them, "purchases from affiliates at inflated prices, sales to affiliates at
16 below market prices, or a combination of both."⁹ All of this, however, is the
17 subject of review in another docket currently pending before the TRA and has
18 nothing to do with the Company's proposals in this docket to revise Rate
19 Schedule 260.

20 Q. DOES MR. DOSKER MAKE ANY UNSUPPORTED STATEMENTS
21 RELATING TO GAS COSTS IN VIRGINIA?

22 A. Yes. Mr. Dosker has apparently concluded based upon his review of the
23 Company's 25-month history of purchased gas adjustment clauses in Virginia that
24 the Company is selling gas at below cost. He makes reference to the monthly
25 NYMEX gas prices and AEC's PGA rates in Tennessee for purposes of
26 comparison against AEC's PGA rates in Virginia, but he does not provide any
27 NYMEX gas price data in his testimony.

28 Q. IS HISTORICAL NYMEX GAS PRICING DATA PUBLICLY
29 AVAILABLE?

⁷ Pre-Filed Testimony of John M. Dosker, p. 6, lines 1-3.

⁸ AEC's last peaking purchase from AEM was over four years ago.

⁹ *Id.* at p. 6, lines 11-12.

1 A. Yes. This information can be obtained through a number of industry sources or
2 through the website maintained by the Energy Information Administration (EIA)
3 at www.eia.doe.gov. Available NYMEX historical pricing data can be compared
4 against AEC's effective PGA rates, but some explanation needs to be made.

5 **Q. PLEASE EXPLAIN.**

6 A. AEC's filed PGA rates in both Tennessee and Virginia are based upon a price per
7 hundred cubic feet of gas, while NYMEX prices are reported in increments
8 roughly equivalent to 1,000 cubic feet of gas. Therefore, reported PGA rates
9 would need to be multiplied by 10 in order to present a fair comparison against
10 NYMEX prices. In addition, the reported PGA rates are not simply commodity
11 prices, such as are NYMEX prices, but include demand costs (pipeline storage
12 and transportation costs), so the reported PGA rates will typically be higher than
13 NYMEX commodity prices.

14 **Q. HAVE YOU PREPARED A SUMMARY OF THIS DATA?**

15 A. Yes, with respect to firm customer rates. I have also rounded reported PGA and
16 NYMEX rates to the nearest penny and without accounting for PGA adjustments
17 relating to actual cost adjustments (ACA) for prior periods. The results are
18 reflected in the following table:

19

<i>Month/Year</i>	<i>TN PGA</i>	<i>VA PGA</i>	<i>NYMEX</i>
January 2006	16.94	17.01	11.43
February 2006	12.66	11.75	8.40
March 2006	11.07	9.82	7.11
April 2006	9.35	8.25	7.23
May 2006	9.87	8.95	7.20
June 2006	8.80	7.33	5.93
July 2006	8.80	7.42	5.89
August 2006	8.80	7.20	7.04
September 2006	8.80	8.32	6.82
October 2006	9.81	7.36	4.20
November 2006	9.81	8.83	7.15
December 2006	9.81	10.75	8.32
January 2007	9.81	10.25	5.84
February 2007	9.81	9.31	6.92

March 2007	8.82	9.89	7.55
April 2007	9.39	9.42	7.56
May 2007	9.39	10.07	7.51
June 2007	9.39	10.32	7.59
July 2007	9.39	10.44	6.93
August 2007	8.70	8.95	6.11
September 2007	7.83	8.78	5.43
October 2007	8.68	8.73	6.42
November 2007	8.68	9.97	7.28
December 2007	8.68	10.62	7.20

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11 **Q.**

DOES MR. DOSKER MAKE ANY OTHER ERRONEOUS CONCLUSIONS WITH RESPECT TO TENNESSEE AND VIRGINIA?

13 **A.**

Yes. It appears that Mr. Dosker is intimating on page 8 of his direct testimony that Tennessee ratepayers are subsidizing demand costs for Virginia ratepayers. However, this is not the case.

16 **Q.**

PLEASE EXPLAIN.

17 **A.**

As I have already explained previously in my testimony, ETN serves AEC's distribution systems in East Tennessee and in Virginia. In order to allocate certain demand costs on the ETN system between the two states, and as is more particularly explained in the rebuttal testimony of Mrs. Patricia Childers, the Company performs a demand allocation study annually that allocates the demand (and the attendant costs) between Tennessee and Virginia. This study is submitted with the Company's annual actual cost adjustment filings made each

23

1 year with the TRA and the Virginia State Corporation Commission. Both
2 agencies have approved the Company's methodology for allocating this demand.
3 Therefore, customers in both states pay their fair share of the demand costs.

4 **Q. DO YOU HAVE ANY COMMENTS CONCERNING MR. DOSKER'S**
5 **PROPOSAL THAT AEC OFFER A TRANSPORTATION STORAGE**
6 **OPTION?**

7 A. Yes. First, it is my understanding that AIG and Stand were proponents of such a
8 proposal in AEC's recent general rate case in Tennessee, but elected not to pursue
9 that proposal at hearing. Second, neither AIG or Stand raised this as a proposal
10 for incorporation into AEC's revised Rate Schedule 260 until they filed their
11 direct testimony and after discovery had already been concluded. Finally, AEC
12 does not use storage in such a manner as will facilitate a transportation storage
13 option to marketers.

14 **Q. PLEASE EXPLAIN YOUR LAST STATEMENT.**

15 A. Although Mr. Dosker states that placing gas in storage is one of the few ways to
16 physically hedge against natural gas volatility¹⁰, he overlooks or simply does not
17 understand the Company's paramount use of storage. Specifically, storage is a
18 means to ensure reliability of service to firm sales customers during the cold
19 season to keep homes, businesses, and public places heated. Storage helps the
20 Company achieve reliability by mitigating its dependency on third-party supply
21 during the heating season, and storage gas can instead be withdrawn to meet
22 customer demand. Contrary to Mr. Dosker's statement, which has no support in
23 fact or otherwise, the Company simply does not have an abundance of excess
24 storage that can be made available for use by third-party marketers such as Stand.
25 If AEC were to offer a transportation storage option, and since AEC cannot
26 simply assign storage capacity, this would mean that some percentage of storage
27 gas would have to be held for the benefit of a transportation customer
28 (presumably at time-of-injection pricing). When the transportation customer got
29 ready to withdraw its gas held in storage, title would presumably pass from the
30 Company to the customer or its marketer at the point of withdrawal, the customer

¹⁰ Direct Testimony of John M. Dosker, p. 11, lines 19-23.

1 would effectuate delivery to AEC's city gate, and then AEC would transport the
2 customer's gas from the city gate to the customer's meter. In other words, the
3 Company would effectively be providing the same service to the transportation
4 storage option customer as it does to a firm sales customer, except the former
5 would have the option of procuring its commodity from a source other than AEC.
6 The problem with this option is that it does not work as simply as it sounds. Each
7 storage contract sets limits on injection and withdrawal capacity and, in the
8 heating season and especially on colder days as I previously described,
9 withdrawals are typically made to meet firm sales customer demand and AEC
10 could not reliably withdraw storage gas for transportation customers. During the
11 injection season, gas is being injected into storage ratably and methodically and
12 operational restrictions may impede withdrawals for transportation customers who
13 consume natural gas in warmer weather. Moreover, the Company would need to
14 conduct a more detailed study of historical storage operations, peak system
15 demand, capacity availability and other issues before it could even begin to
16 propose offering any form of transportation storage option. This docket is not the
17 proper forum for such a proposal, and the intervenors' last-minute effort to toss
18 that proposal into this docket should be rejected.

19 **Q. DID YOU PROVIDE DIRECT TESTIMONY IN THIS DOCKET**
20 **CONCERNING DAILY SCHEDULING FEES?**

21 A. Yes. In my pre-filed testimony, I stated that I was unaware of any interstate
22 pipelines serving the Company's Tennessee distribution systems that were
23 currently charging daily scheduling fees. That is still a true statement even as of
24 the date of this rebuttal testimony. However, Columbia Gulf Transmission
25 Corporation (CGT) will soon begin charging daily scheduling fees.

26 **Q. PLEASE DESCRIBE THE FEES THAT CGT WILL CHARGE.**

27 A. In Docket No. RP07-174-000¹¹, the Federal Energy Regulatory Commission
28 (FERC) issued an order accepting and suspending CGT's proposed tariff sheets
29 subject to refund and further review. Essentially, CGT will charge a daily
30 delivery point scheduling penalty to any shipper on the CGT system who has a

¹¹ *Columbia Gas Transmission Corporation*, 119 FERC P61,268 (June 11, 2007).

1 variance of 5% or more above or below its scheduled quantity during non-critical
2 periods. During critical periods, the permissible variance is 2%. The penalty rate
3 during non-critical periods is equal to CGT's interruptible transportation service
4 rate for each dekatherm of scheduled gas outside of the permitted 5% variance.
5 During critical periods, the penalty rate for each dekatherm of gas outside of the
6 2% permitted variance is equal to three times the midpoint of the range of prices
7 reported for "Columbia Gas, Louisiana" as published in *Platts Gas Daily* price
8 survey.

9 **Q. WHEN WILL CGT'S FEES GO INTO EFFECT?**

10 A. CGT had originally proposed an effective date of June 1, 2007, but subsequently
11 changed that date to August 1, 2007 to coincide with the launch date of CGT's
12 new EBB system. In the RP07-174-000 docket, FERC declared an effective date
13 for CGT's scheduling fee tariff to be effective on the earlier of January 1, 2008 or
14 a date specified in a further order of FERC, subject to refund and conditions and
15 further review. The launch date of CGT's new EBB system was again delayed
16 and CGT subsequently proposed an effective date of May 1, 2008 for the new
17 EBB system and the tariff sheets that provide for the scheduling penalties.
18 Although all of this is a little confusing, it appears that CGT's implementation of
19 daily delivery point scheduling penalties will commence May 1, 2008 once the
20 new EBB is up and running.

21 **Q. ON WHAT BASIS DID CGT PROPOSE THE DAILY SCHEDULING**
22 **PENALTIES?**

23 A. CGT contended that shippers on its system had shown a historical inability to
24 keep their actual gas quantities within an acceptable tolerance range of their
25 scheduled quantities, thereby making it more challenging for CGT to forecast and
26 manage its system capacity. CGT reasoned that scheduled quantities greater than
27 actual takes result in a lost opportunity for other shippers and that scheduled
28 quantities less than actual takes results in less operational control and increased
29 operational risk. Although its shippers complained that CGT already had a
30 transportation imbalance mechanism in place, CGT explained that the daily
31 scheduling penalty was designed to encourage shippers to manage their

1 nominations by scheduling their gas quantities accurately. Apparently, FERC
2 agreed.

3 **Q. CAN ANY CORROLARIES BE DRAWN FROM FERC'S DECISION ON**
4 **CGT'S PROPOSAL FOR DAILY SCHEDULING PENALTIES TO THE**
5 **DAILY SCHEDULING FEES PROPOSED BY THE COMPANY IN THIS**
6 **DOCKET?**

7 A. Yes. The Company has stated in this docket that the purpose of its proposed daily
8 scheduling fees is to encourage transportation customers and their marketers to
9 more actively monitor and manage their nominations and balances. In my direct
10 testimony, I explained how the Company uses its storage capacity to manage its
11 daily imbalance obligations with the connecting interstate pipelines. Mr. Daniel
12 Bertotti provided some specific examples of how transport customers and/or their
13 marketers have not actively managed their scheduled quantities and how this
14 entails the Company's use of storage. Essentially, the use of storage entails costs
15 that, if not shared by transport customers, are borne exclusively by firm service
16 customers. In other words, actual takes by transportation customers less than or
17 greater than their scheduled volumes outside of the prescribed tolerance results in
18 additional storage costs to firm service customers. Actual takes less than
19 scheduled quantities are injected into storage and actual takes greater than
20 scheduled quantities are withdrawn from storage, all to stay in balance with the
21 pipeline.

22 **Q. DO THE INTEVENORS OFFER ANY SUBSTANTIVE BASIS FOR THE**
23 **TRA TO REJECT THE COMPANY'S PROPOSAL FOR DAILY**
24 **SCHEDULING FEES?**

25 A. No. They argue that the fees should not be allowed because no interconnecting
26 interstate pipeline charges such fees and they are therefore not cost based.
27 However, the Company has already shown that its cost does not arise from the
28 imposition of a fee from an interstate pipeline, except perhaps on the CGT system
29 after May of this year, but from the use of storage to manage imbalance
30 obligations with the connecting pipelines. Mr. William Novak, a witness for AIG,
31 has suggested in his direct testimony that daily scheduling fees are inappropriate

1 because the Company presently receives a monthly balancing service from the
2 pipelines.¹² While it is generally true that imbalances may be resolved on an
3 aggregate basis with a pipeline for cash-out purposes at the end of each month,
4 this assertion conveniently overlooks the fact that the Company is required to
5 manage its balances with the pipelines on a daily basis. Otherwise, the pipeline
6 generally has the ability to restrict gas volume deliveries based upon a ratable
7 flow and/or assess daily variance penalties, depending upon the pipeline and the
8 terms of its FERC-approved tariff.

- 9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
10 **A. Yes.**

¹² Direct Testimony of William H. Novak, p. 4, lines 15-19.