

Hinton, Daniel E (PSC)

From: Bertotti, Danny P
Sent: Wednesday, June 5, 2019 4:57 PM
To: Hinton, Daniel E (PSC)
Cc: Martin, Mark; Densman, Josh C
Subject: FW: KY-PSC Electronic Filing Center NotificationTFS2019-00290
Attachments: GenCanna Simple Payback Analysis.pdf

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Daniel,

Please see Atmos Energy's response to your latest questions concerning the filing of the "gross margin requirement" of the GenCanna Large Volume Natural Gas Service Agreement. I am responding on behalf of Mark Martin, who is traveling today. Our responses have been inserted into your email below.

Please let me know if you have any further questions. GenCanna has a deadline of mid-August for natural gas service, therefore, Atmos Energy is needing to begin construction as soon as possible to meet that deadline.

Thank you,
Danny Bertotti

VP Marketing
Atmos Energy
810 Crescent Centre Dr.
Suite 600
Franklin, TN 37064
615-771-8335 office

From: Hinton, Daniel E (PSC) [<mailto:dehinton@ky.gov>]
Sent: Wednesday, June 5, 2019 6:33 AM
To: Martin, Mark
Subject: [EXT] RE: KY-PSC Electronic Filing Center NotificationTFS2019-00290

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Mr. Martin,

Staff has a couple of additional questions regarding the contract between Atmos and GenCanna Global USA. Please see below:

1. Refer to the response to Item 3. "Gross margin" is usually synonymous to "gross profit;" however, Atmos appears to use "annual gross margin" to refer to "annual gross revenues." Confirm that every instance of "margin" in the special contract refers to "revenue." If this cannot be confirmed, explain. The definition of "annual gross revenue" includes: base charge, tiered distribution charges, PRP surcharges, and gas costs charges (GCA). The GCA is merely a pass through, and ultimately is not included in the calculation of "annual gross margin". (annual gross revenue – annual gas cost charges = annual gross margin). The Company used annual gross margin as the basis for its contract requirement.

2. Provide a cost-benefit analysis that demonstrates that the special contract's marginal revenue will exceed the marginal cost of service, including the proposed extension. See attached Simple Payback Analysis.

Responses can be e-mailed back to me at this address.

If you have any questions, please give me a call at (502) 782-2626 or respond to this e-mail.

Thanks.

Daniel

KY Project

Customer: GenCanna Global USA

\$ in Thousands

	Year 1	Year 2	Year 3	Year 4	Year 5
Capital Costs:					
Atmos funding of the project	\$ 350,000				
Operating Margin:					
Revenue	\$ 130,000	\$ 130,000	\$ 130,000	\$ 130,000	\$ 130,000
Total Operating Margin	\$130,000	\$130,000	\$130,000	\$130,000	\$130,000
Expenses					
O&M	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Depreciation	\$4,288	\$8,575	\$8,575	\$8,575	\$8,575
Ad Valorem Tax 1.45%	\$5,013	\$4,888	\$4,764	\$4,640	\$4,515
Interest Expense 48.93% Debt Financed 4.63%	\$6,608	\$6,444	\$6,280	\$6,116	\$5,952
Total Expenses	\$16,908	\$20,908	\$20,619	\$20,331	\$20,043
Net Income Before Income Taxes (EBT)	\$113,092	\$109,092	\$109,381	\$109,669	\$109,957
Income Tax 23.12%					
Current Taxes	\$23,091	\$19,517	\$20,352	\$21,107	\$21,796
Deferred Tax Exp	\$3,055	\$5,705	\$4,936	\$4,248	\$3,625
Total Income Tax Expense	\$26,146	\$25,221	\$25,288	\$25,355	\$25,421
Net Income After Taxes	\$86,946	\$83,871	\$84,093	\$84,314	\$84,536
Gross Plant In Service	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Accumulated Depreciation	\$4,288	\$12,863	\$21,438	\$30,013	\$38,588
Net Plant in Service	\$345,713	\$337,138	\$328,563	\$319,988	\$311,413
Other Rate Base Items	\$0	\$0	\$0	\$0	\$0
Total Rate Base	\$345,713	\$337,138	\$328,563	\$319,988	\$311,413

Operating Cash Flow

Net Income After Taxes	\$86,946	\$83,871	\$84,093	\$84,314	\$84,536
(+) book depreciation	\$4,288	\$8,575	\$8,575	\$8,575	\$8,575
(+) deferred tax	\$3,055	\$5,705	\$4,936	\$4,248	\$3,625
(-) capital outlays	\$350,000	\$0	\$0	\$0	\$0
Total Free Cash Flow	(\$255,712)	\$98,151	\$97,604	\$97,137	\$96,736
(+) interest expense	\$6,608	\$6,444	\$6,280	\$6,116	\$5,952
Operating Cash Flow Before Interest	(\$249,104)	\$104,595	\$103,884	\$103,254	\$102,688

	5 YR
Internal Rate of Return	24.09%
Net Present Value	\$84,929
Simple Payback (Yrs.)	2.69