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Issue: Revenue Requirements
Billing Determinants
Witness: Gary L. Smith
Type of Exhibit: Direct Testimony
Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2010-
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2010-_____

DIRECT TESTIMONY

OF

GARY L. SMITH

ON BEHALF OF

ATMOS ENERGY CORPORATION

DECEMBER, 2009

INDEX TO THE DIRECT TESTIMONY

OF GARY L. SMITH

WITNESS ON BEHALF OF

ATMOS ENERGY CORPORATION

I. POSITION AND QUALIFICATIONS.....	1
II. PURPOSE OF TESTIMONY.....	3
III. COST OF SERVICE AND REVENUE DEFICIENCY	4
IV. BILLING DETERMINANTS.....	7
V. AFFIDAVIT.....	13

**BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2010-_____
PREPARED DIRECT TESTIMONY
OF
Gary L. Smith
On Behalf of
ATMOS ENERGY CORPORATION**

I. POSITION AND QUALIFICATIONS

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3 **Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND**
4 **BUSINESS ADDRESS.**

5 **A.** My name is Gary L. Smith. I am Director – Rates and Regulatory Affairs for
6 Atmos Energy Corporation (“Atmos Energy” or the “Company”). My business
7 address is 5420 LBJ Freeway, Dallas, Texas, 75240.

8 **Q. PLEASE BRIEFLY DESCRIBE YOUR CURRENT RESPONSIBILITIES,**
9 **AND PROFESSIONAL AND EDUCATIONAL BACKGROUND.**

10 **A.** In March 2008, I assumed my current position. In this role, I am responsible for
11 planning and implementing strategies to assure that the Company’s tariffs and
12 services provide a reasonable opportunity to achieve profitability. Previously, I
13 served briefly as Director of Customer Revenue Management in Dallas. Prior to
14 that, through May 2007, I served as Vice President-Marketing and Regulatory
15 Affairs for the Company’s Kentucky/Mid-States operations, where I was

1 responsible for rates and regulatory affairs, as well as for directing the marketing
2 plans and strategies for natural gas utility markets in that division.

3 I am a 1983 graduate of the University of Kentucky, with a Bachelor of
4 Science degree in Civil Engineering. I have worked for Atmos Energy
5 Corporation or its predecessor, Western Kentucky Gas Company, since 1984,
6 serving in a variety of technical and supervisory positions. In 1998, I was named
7 Vice President-Marketing for the Kentucky Division and added the
8 responsibilities of Vice President-Regulatory Affairs in 2003. I have also served
9 on numerous company-wide committees, and am a past-chair of Atmos Energy's
10 Utility Marketing Council, a group responsible for company-wide market
11 development policies. I have been active in numerous civic and community
12 organizations and associations relating to the natural gas industry.

13 Recently, I served as chairman of the Utilization Technology
14 Development, NFP Corporation and previously served as chair of the Strategic
15 Marketing Committee for the American Gas Association.

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI**
17 **PUBLIC SERVICE COMMISSION ("COMMISSION")?**

18 **A.** Yes, I testified in Case No. GR-2006-0387 before the Commission. In that Case,
19 I was the witness for the Company's proposed Weather Normalization
20 Adjustment tariff and supported the adoption of the rate design ultimately
21 approved in the docket.

22 **Q. HAVE YOU TESTIFIED ON MATTERS BEFORE OTHER STATE**
23 **REGULATORY COMMISSIONS?**

1 A. Yes. I have testified before the Kentucky Public Service Commission, the
2 Georgia Public Service Commission, the Tennessee Regulatory Authority, the
3 Kansas Corporation Commission, and the Railroad Commission of Texas.
4

5 **II. PURPOSE OF TESTIMONY**
6

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

8 A. The purpose of my testimony is to provide an overview of the revenue
9 requirements as contained in this request and to present the determination of the
10 Missouri Cost of Service and Revenue Deficiency. I am sponsoring various
11 schedules included in COS-1 through COS-10 which form the bases for these
12 calculations. I am also sponsoring the Billing Determinants Studies for this case,
13 including normalizing and pro-forma adjustments. The billing determinants are
14 utilized in the calculation of revenue at present rates and for purposes of deriving
15 rates to produce the computed cost of service.

16 **Q. ARE YOU SPONSORING ANY SCHEDULES IN CONNECTION WITH**
17 **YOUR TESTIMONY?**

18 A. Yes. Schedules COS-1 through COS-10, which are included in the filing behind
19 the Tab labeled "Cost of Service (COS)" and the Billing Determinants study
20 which is included in the filing behind the Tab labeled "Billing Determinants
21 (BD)".
22
23

1 **III. COST OF SERVICE AND REVENUE DEFICIENCY**

2

3 **Q. WHAT IS THE TEST PERIOD USED IN THE DETERMINATION OF**
4 **THE REVENUE DEFICIENCY?**

5 A. The test period in this case is the 12 months ended June 30, 2009.

6 **Q. PLEASE DESCRIBE EACH OF THE SCHEDULES SUPPORTING THE**
7 **CALCULATION OF THE COST OF SERVICE AND THE REVENUE**
8 **DEFICIENCY.**

9 A. Schedule COS-1, Cost of Service and Revenue Deficiency:

10 This schedule brings together the results of Schedules COS-2 through COS-10 to
11 calculate a Missouri Cost of Service of \$23.2 million and an annual Revenue
12 Deficiency, under current rates, of nearly \$6.4 million. These results reflect
13 Missouri direct operations, plus allocations from the Company's administrative
14 offices serving Missouri (Shared Services, Call Centers, Kentucky/Mid-States
15 General Office and Colorado-Kansas General Office).

16 Schedule COS-2, Summary of Normalized Margin Revenue at Present Rates:

17 This schedule calculates the current revenues by tariff class and by rate districts.
18 This schedule calculates normalized margin revenue, excluding gas costs, for each
19 district at their respective current rates and tariffs, adjusted customer count and
20 weather normalized consumption volumes. I will discuss later in this testimony
21 the adjustments incorporated to billing determinants as reflected on this schedule.

22 Schedule COS-3, Summary of Normalized Margin Revenue at Proposed Rates
23 and Classifications:

1 This schedule calculates the revenues by tariff class, under proposed
2 classifications, by rate district. This schedule calculates normalized margin
3 revenue, excluding gas costs, for each district at their respective proposed rates
4 and tariffs, with adjusted customer count and weather normalized consumption
5 volumes. I will discuss later in this testimony the adjustments incorporated to
6 billing determinants as reflected on this schedule.

7 Schedule COS-4, Operation and Maintenance Expenses:

8 This schedule shows the test period per-book O&M expenses as well as proposed
9 adjustments. Company witness, Mr. Robert Hassen, sponsors the O&M
10 adjustments incorporated in this schedule.

11 Schedule COS-5, Taxes Other Than Income Taxes:

12 This schedule includes all of the taxes other than income taxes that are to be
13 recovered through the cost of service. This schedule also includes the result of
14 any adjustments made to the other taxes as calculated on the supporting work
15 papers. Company witness Hassen sponsors the tax adjustments.

16 Schedule COS-6, Depreciation and Amortization Expense:

17 This schedule shows the depreciation and amortization expenses included in the
18 cost of service. The details supporting this schedule are discussed in the
19 testimony of Company witness Mr. Thomas Petersen.

20 Schedule COS-7, Rate Base and Return Calculation:

21 This schedule summarizes all of the components included in the determination of
22 the rate base and the proposed return to be earned on that rate base. The details to

1 these numbers, rates and calculations will be discussed in the testimony of
2 Company witness Petersen.

3 Schedule COS-8 Computation of Federal and State Income Taxes:

4 This schedule calculates the federal and state income tax impact after recognizing
5 all adjustments being proposed to the rate base at the proposed overall Rate of
6 Return. This schedule also includes the interest synchronization determination
7 based upon the total rate base and the proposed cost of debt to arrive at the fully
8 adjusted state and federal income tax expense. The details supporting this
9 schedule will be discussed in the testimony of Company witness Mr. Petersen.

10 Schedule COS-9, Capital Structure and Cost of Capital:

11 This schedule shows the proposed capital structure and overall rate of return
12 calculations proposed in this proceeding. The details and discussions related to
13 components shown on this schedule will be discussed in the testimonies of
14 Company witnesses Dr. James Vander Weide and Mr. Robert Smith.

15 Schedule COS-10, Interest Expense on Security Deposits:

16 This schedule shows the calculation of the interest expense as required under the
17 approved tariffs. SHEET NO. 21 of the tariff includes a description of how the
18 interest rate to be paid on customer deposits will be determined. The
19 methodology requires that the company adjust the interest rate annually to equal
20 the prime bank lending rate as published in the Wall Street Journal for the last
21 business day of the preceding year plus 1 percent. The prime bank lending rate
22 for December 31, 2008 was 3.25%. Therefore, the interest rate reflected on this

1 schedule is 4.25%. The details supporting this schedule will be discussed in the
2 testimony of Company witness Hassen.

3
4 **IV. BILLING DETERMINANTS**

5
6 **Q. WHAT ARE BILLING DETERMINANTS?**

7 A. Billing Determinants are units of service to which the Company's distribution
8 rates are applied. Specifically, these units include volumes sold or transported,
9 and customer counts.

10 **Q. ARE YOU SPONSORING THE SCHEDULES REGARDING THE**
11 **DETERMINATION OF BILLING UNITS AND MARGIN REVENUES?**

12 A. Yes, I am sponsoring Schedule COS-2 and COS-3 in the Cost of Service model
13 and the complete Billing Determinants Study filed in this Case.

14 **Q. PLEASE SUMMARIZE SCHEDULE COS-2.**

15 A. This schedule is a summary of the revenues that would be collected based upon
16 the customer count reflected and consumption, as adjusted for normal weather,
17 and priced at the currently approved tariffs and rates. Per books test year billing
18 units are reflected in columns (b) and (c). Per books data has been evaluated and
19 corrected to eliminate out-of-period adjustments. Three categories of adjustments
20 are applied to the per books volumes and customer counts in order to derive the
21 appropriate billing units in this case: (1) an adjustment to reflect volumes
22 delivered under normal winter temperatures, (2) an adjustment for changes in
23 customer counts and (3) an adjustment to reflect changes in the industrial market.

1 **Q. WHAT IS THE PURPOSE OF THE WEATHER ADJUSTMENT?**

2 A. The weather adjustment adjusts the level of sales volumes to reflect the level of
3 sales the Company would have experienced during a year with normal or average
4 weather.

5 **Q. PLEASE DESCRIBE THE MANNER IN WHICH SALES VOLUMES ARE**
6 **WEATHER NORMALIZED.**

7 A. For each district, the company computed the adjustment to reflect usage under
8 normal weather for residential, Small Firm General Service ("SGS") commercial
9 and Medium Firm General Service ("MGS") commercial customer classes.
10 Weather stations utilized for both actual and normal heating degree days are
11 Quincy, IL for the NEMO district, Paducah, KY for the SEMO district and
12 Kansas City for the Western Missouri district. Normal heating degree days were
13 computed as the ten-year simple daily average for each station.

14 For each customer class in each district, the following steps were taken to
15 compute the appropriate weather adjustment. The base, non-weather sensitive,
16 usage is calculated as the average use per customer during the months of July and
17 August. Deducting the annual base load from the total actual use reveals the
18 annual weather sensitive usage per customer. Dividing the annual weather
19 sensitive usage by actual heating degree days determines the weather dependency.
20 The weather dependency times the heating degree day variance from normal
21 computes the appropriate monthly weather adjustment.

22 **Q. PLEASE DESCRIBE THE BASE COUNT ADJUSTMENT.**

1 A. The base count adjustment assesses the rate of growth or decline for residential
2 customers. We reviewed residential customer counts for the four years ending
3 June 30, 2009. Based upon the average change in customer counts for the four
4 year period, we have experienced consistent losses in residential customers in
5 each of the three rate districts. In the Northeast Missouri district, the average rate
6 of decline has been 323 customers per year. The adjustment applied in this case
7 for customer count changes in the NEMO district is a loss of 300 customers. In
8 the Southeast Missouri district, the average rate of decline has been 412
9 customers per year. The adjustment for the rate case billing determinants in the
10 SEMO district is a loss of 400 customers. Lastly, the Western Missouri district
11 has experienced an average decline of 56 customers per year and the adjustment
12 incorporated in the billing determinants model is a decline of 50 customers.

13 **Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO CHANGES IN**
14 **THE INDUSTRIAL MARKET.**

15 A. The adjustment recognizes the addition of three new industrial customers which
16 were not in service throughout the test year ending June 2009 and the loss of one
17 industrial customer due to closure. For the new customers, we have estimated the
18 monthly usage for these facilities and added the appropriate volumes and bill
19 counts to reflect a full year of service. For the industry closure, the adjustment
20 removes any volumes and bill counts reflected in the test year.

21 **Q. ARE THERE ANY OTHER ADJUSTMENTS APPLIED IN THE**
22 **DETERMINATION OF BILLING DETERMINANTS FOR USE IN**
23 **CALCULATING CURRENT MARGIN REVENUES?**

1 A. No. The three adjustments described above were the only adjustments used in
2 determining current margin revenues for rate classes, with classifications as
3 currently applied.

4 **Q. DOES THE COMPANY PROPOSE TO CHANGE THE MANNER OF**
5 **CLASSIFYING CERTAIN RATE CLASSES?**

6 A. Yes. As set forth more fully in the testimony of Company witness Mark Martin,
7 the Company proposes to change the manner of distinguishing SGS and MGS
8 commercial and industrial customers. The current classifications resulted from
9 Case No. GR-2006-0387. That case distinguished SGS as customers consuming
10 less than 200 Mcf per year and MGS as customers consuming at least 200 but less
11 than 7,500 Mcf per year. The Company, in this docket, proposes to define SGS
12 customers as those with a meter classification of A or B, and MGS as customers
13 with larger meters. The Company proposes to retain the existing definition of
14 7,500 Mcf per year as the line distinguishing MGS from Large General Service
15 ("LGS") classification.

16 **Q. HOW DOES THIS CLASSIFICATION CHANGE AFFECT THE BILLING**
17 **DETERMINANTS?**

18 A. The change does not affect the previously described billing determinants
19 calculation used to present current margin revenues, under current classifications;
20 however, it does affect the billing determinants used in the proof of revenues
21 under proposed rates (and proposed classifications).

1 **Q. PLEASE DESCRIBE HOW THE BILLING DETERMINANTS WERE**
2 **COMPUTED FOR PURPOSES OF STATING PROPOSED MARGIN**
3 **REVENUES.**

4 A. The billing determinants for proposed rates, under classifications proposed in this
5 docket, were computed in a similar fashion as described earlier for the current
6 margin calculation, with a weather adjustment, customer count adjustment and
7 industrial adjustment. However, before these adjustments to per books billing
8 units were applied, the Company first made an adjustment to reflect the
9 reclassification of customers under the proposed "meter-type" basis. These
10 calculations are included in support of COS-3 in the Billing Determinants study.

11 **Q. PLEASE EXPLAIN HOW THE COMPANY DETERMINED THE**
12 **ADJUSTMENT RELATED TO RECLASSIFICATIONS OF SERVICE.**

13 A. Based upon the proposed "meter-type" classification, we reviewed non-SGS
14 accounts which have either a Class A or Class B meter as well as existing SGS
15 accounts which do not have either a Class A or B meter. For the newly classified
16 SGS accounts, we reflect the adjustment of base charge counts and volumes from
17 their current service to SGS. For the existing SGS accounts not having an A or B
18 meter, we reviewed low-use customers to assess whether the account could be
19 served through one of those meter types. For such customers which could
20 reasonably be served through the smaller capacity meter, we flagged them as
21 exceptions and continue to reflect them as SGS accounts. For all other existing
22 SGS accounts served through Class C meters or larger, we reflect the adjustment

1 of base charge counts and volumes from SGS to their proposed service
2 designation

3 With these reclassification adjustments, then the Company proceeded to
4 compute the weather adjustment for each district. Then, the same residential
5 customer count adjustment and industrial adjustment set forth previously in
6 testimony were applied to the billing determinants for computing proposed
7 margin revenues.

8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS**
9 **PROCEEDING?**

10 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Atmos Energy Corporation's Tariff)
Revision Designed to Consolidate Rates and)
Implement a General Rate Increase for Natural Gas)
Service in the Missouri Service Area of the Company.)

Case No. GR-2010-

AFFIDAVIT OF GARY L. SMITH


STATE OF TEXAS)
) ss
COUNTY OF DALLAS)

Gary L. Smith, being first duly sworn on his oath, states:

1. My name is Gary L. Smith. I work in Dallas, Texas, and I am employed by Atmos Energy Corporation, as the Director, Rates and Regulatory Affairs for Atmos Energy Corporation.

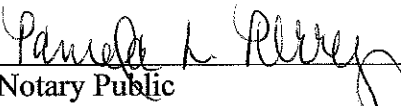
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Atmos Energy Corporation consisting of twelve (12) pages, Schedules COS-1 through COS-10, and the Billing Determinants study, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Gary L. Smith

Subscribed and sworn before me this 18th day of December, 2009.



Notary Public

My commission expires: 10-29-12

