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-2006-0387

STAFF PRE-HEARING BRIEF

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and, in accord with the Commission's November 8, 2006 *Order Changing Hearing Dates And Setting Out Procedures* which reset the filing of pre-hearing briefs to November 17th, states:

On November 14, 2006, the Staff filed, on behalf of the parties, a *Joint List of Issues, Witnesses, and Order of Cross-Examination* (Issues List). Staff's Pre-hearing Brief follows the Issues List and addresses each issue as discussed below:

ISSUES

Revenue Requirement

A. Level of Expense

Based on Staff's current revenue requirement calculation, on a total company basis, the level of total expense is $12.7 million. See the discussion of revenue requirement in item C below.

B. Rate of Return / Return on Equity

Staff recommends that the Commission authorize an overall rate of return for Atmos of 7.12 percent to 7.46. This rate of return recommendation is based on a recommended return on common equity of 8.59 percent to 9.39 percent applied to Atmos' June 30, 2006, common equity ratio of 42.41 percent.

C. Level of Revenue Excess / Deficiency

As a result of the Settlement Conference held October 2 through 6, 2006, several parties posed arguments opposing many of Staff's positions. Based on these discussions, Staff recognizes that its cost of service would likely be modified by the Commission if a hearing of the differing positions of the parties is conducted. A possible Commission ruling in favor of the other parties in areas of rate of return, amortization expense, and uncollectibles, could substantially reduce, or completely eliminate, the revenue excess calculated by Staff. The Staff believes no change in the cost of service, on a total company basis, will still result in just and reasonable rates as a result of this case.

Depreciation and Reserve Amortization

Atmos should continue using the current Commission-ordered depreciation rates because the Company has not maintained sufficient plant data to enable the staff to perform a detailed deprecation analysis.

Staff believes the Company to be in violation of Commission rule 4 CSR 240-40.040 (3) and has failed to: "Keep mortality records of property and property retirement as will reflect the average service life of retiring property and will aid the actuarial analysis of the probable service life of annual additions and aged retirements when implementing the provisions of Part 201 Income Accounts 403.B. and paragraph 20,422.403.B." Staff recognizes that Atmos, particularly its predecessor companies Greeley Gas Company, United Cities Gas Company, and Associated Natural Gas Company, have had past problems keeping adequate plant records that meet the Commission's requirements. Staff recommends the Commission order the Company to comply with the Commission's rules regarding plant record keeping, as presented in 4 CSR 240-40.040.

Staff agrees with the position taken by the Company's management, which has reviewed and accepted their depreciation consultant's recommendation that, as a whole, the annual depreciation accrual should be reduced by approximately $591,000. This can be implemented by the Company entering a negative amortization to the depreciation reserve account 108. By so doing, this will result in lowering the Company's depreciation expense, consistent with the level that Staff believes is appropriate. By using this approach, future rates to customers will be less than if the Staff attempted to reflect the negative amortization in lower depreciation rates.

Rate Design

A. Rate Structure for Residential, Small, and Medium General Service

For the Residential class, Staff recommends recovering the non-gas, or margin, costs in a fixed monthly charge (Delivery charge.) Staff believes that customers within the Residential class are homogenous with respect to cost factors related to the utility's actual cost of servicing them, and that it is wrong to collect these costs from customers through a volumetric charge. Volumetric charges penalize higher-use customers (typically space- or water-heating) because these charges force higher users to subsidize service to smaller users. Small-use customers may use gas only for cooking or fueling gas fireplaces.

Staff's cost recovery mechanism has other benefits for space- and/or water-heating customers. The fixed Delivery charge reduces the volatility of a customer's bill from year to year, as well as a portion of the seasonal volatility experienced by space-heating customers. The fixed Delivery charge sends the correct price signals to customers, and may reduce the number of "limited use" customers who request gas service only for cooking or gas fireplaces. By approving Staff's proposal, those customers opting to use gas for limited purposes will pay the true cost of delivery.

A major customer benefit is the alignment of the objectives of the utility's shareholders with the interests of its customers. Because the utility's revenues would no longer depend on maximizing gas deliveries, the interests of its customers and shareholders will not be in opposition. As a condition of the Commission's approval of the Delivery Charge, and the accompanying opportunity it provides the Company for achieving revenue stability, the Company will commit to implementing conservation and efficiency programs that will educate customers about conservation measures, and help them identify energy-saving improvements.

By adopting Staff's proposed fixed Delivery Charge, the Commission will (1) insure that all customers pay the Commission-determined price for their gas service – no more, no less, (2) lower winter bills of most space- and water-heating customers, (3) send the right price signals to customers for them to make energy-saving improvements, (4) remove disincentives for Company shareholders to fund energy-saving programs aimed at helping customers reduce their gas use, and (5) eliminate the need to implement and administer complex, expensive weather and conservation adjustment mechanisms as permitted under Senate Bill 179.

B. <u>Rate Structure for the Small General Service (SGS) Rate (including the Medium General Service Rate if the Small General Service Class is Split)</u>

The customers that will be classified as Medium General Service (MGS) are now taking service under the Small General Service (SGS) and Large General Service tariffs. A natural break-point exists for SGS customers - those who use around 2,000 Ccf per year or less. These low use customers require the same meter and service lines needed to serve Residential customers. Larger customers demand larger meters, service lines, and other Company investments at greater cost. Staff proposes the Commission adopt its Residential Delivery charges for SGS customers using less than 2,000 Ccf per year within the same territory. Staff proposes that the larger SGS (the new MGS) customers, who are generally not as weather sensitive, but are more diverse, pay the current customer charge / commodity charge rate structure. Large General Service tariffs remain unchanged. In designing the parameters and rates of this class, the principle of rate continuity will be considered in balance with the goal of designing rates that require customers causing the costs to pay them.

Miscellaneous Charges

A. Activation Charges for Connection, Reconnection, and Transfer

Staff proposes that the rates charged by Atmos for connection, reconnection and transfer should be based on Atmos' costs of performing these services.

B. Late Payment

Staff recommends that the late payment fee rate be consistent throughout the tariff.

C. Not Sufficient Funds (NSF)

Staff proposes adopting a uniform NSF charge of $15 for all service areas. Atmos' insufficient funds charge should somewhat match the actual costs ($12.14) incurred for NSF checks. Atmos proposes a uniform $30 NSF rate, well above its actual cost. Accordingly, Staff recommends the Commission approve the $15 rate currently charged by Atmos to the 75% of its customers who pay an NSF charge. The remaining 25% of Atmos' customers who pay an NSF charge pay $10 per NSF check. Also, an unknown number of NSF customers pay no charge at all.

D. Seasonal Reconnection

Seasonal disconnection customers seek to avoid paying costs when not using gas for heat. To dissuade this practice and prevent cost-shiftng to customers who remain connected all year long, the Staff proposes a two-component reconnection charge. First, the customer should pay the traditional reconnection charge ($24) that includes the cost of dispatch and an Atmos employee going to the customer's premise to re-establish service. Second, the seasonaldisconnect customer should "make up" all missed delivery charges (to recover missed sunk and fixed costs) that occurred when the customer took a summer break from Atmos' service. Staff proposes a 12-month limitation applicable to the second component, regardless of the reason for requesting disconnection.

Company District Consolidation

Staff proposes that the Company's current districts be combined into three geographically distinct service territories. As a result of past acquisitions, Atmos now serves customers located in three geographic areas of Missouri. The rates set for customers of the "old" LDC's were not changed when Atmos acquired them. As a result, similarly situated customers within these districts pay different customer charges and volumetric rates. Staff believes it appropriate to combine these seven "historic" districts into three service territories, based on geography. Staff also believes that cost differences between similarly situated customers within contiguous service territories are mostly attributed to differences in historical plant costs. Staff believes Atmos' costs are the same to provide service to two identical customers in neighboring towns in the same geographical area, and that non-gas rates and customer class definitions should be the same for customers within each of the three service territories (each representing one geographical area).

Company PGA Tariffs Consolidation

Staff recommends the consolidation of Atmos' tariffs and the consolidation of Atmos' Purchased Gas Adjustment (PGA) filings. Staff recommends consolidating PGA rates by pipeline. Atmos now files <u>seven</u> separate PGA rates when it files for PGA rate changes for each of its districts. Staff proposes to reduce from seven to four PGA rate districts. Staff recommends consolidating Atmos' PGA rate districts, by pipeline, into the following four districts:

1. Butler and Greeley
2. Hannibal/Canton, Bowling Green and Palmyra
3. Kirksville
4. SEMO and Neelyville

Staff recommends simplifying and improving the efficiency of the PGA/ACA rate process by reducing the number of filings now done by Atmos. By identifying the PGA computation by pipeline, a reduction in the total number of PGA district rate changes will allow the consolidation of districts with similar transportation rates and gas supplies into one district. This is consistent with how AmerenUE now files its PGA rate filings.

Should the Commission adopt Staff's position, each district will be responsible for any remaining ACA balance. Simply put, no customer within a new "combined" district will pay any of the ACA balance attributed to a different "historic" district.

Other Tariff Issues

A. Cash-out Policy

Atmos proposes and Staff recommends the Commission set a uniform cash out policy to cause the transportation customer to pay for incurring imbalances that remain at the end of the month. Whether the imbalance is positive or negative, a transportation customer should pay a price determined by a multi-step formula that uses a published industry price as the starting point. If the imbalance varies by more than 5% of the monthly contract volume, the price will be inflated or deflated by an index referenced in the tariff. In addition to these end-of-month charges, Atmos sets daily charges for being out of balance. This standardized policy would replace Atmos' current practice of applying varying policies. Other utilities use a variety of Commission-approved cash-out provisions. An approval of Atmos' provision is consistent with what the Commission has approved for other utilities.

B. Third Party Administered Pools for Cash-outs

Staff wants to be consistent with the methodology used in the AmerenUE tariffs for cash-outs as recommended by Staff witness Ensrud.

C. Level of Lost and Unaccounted Gas (L&U)

Staff accepts Atmos' proposal to use a flat 2% adjustment for imputing the level of L&U gas on the Atmos system, albeit with conditions. Atmos has lost the ability to accurately measure L&U gas. Atmos is presently not following its tariff for L&U. Instead, Atmos applies a 1.43% L&U factor when it should apply the actual measured L&U assessment. Staff believes this presents issues of cross-subsidization between customer classes and safety. Atmos should be directed to (1) correct the measuring problem, (2) report to the Commission its actual L&U every six months, (3) advise the Commission when the problem is fixed, and (4) be required to revise its tariff if there is a 25% deviation from the proposed 2% factor. After 24 months of accurate reads, possibly 48 months from implementation, Atmos will revert to using the 24-month formula in place today. Finally, should Atmos not fix the problem, fines should be sought.

D. Economic Development Rider (EDR)

Staff recommends approval of Atmos' EDR. The EDR has greater potential to benefit Missourians than to cause them a loss. The Commission has allowed other utilities to implement EDRs which provide greater discounts to industry in the early years than does Atmos' proposed EDR. None of these EDRs have created a loss by their implementation.

E. Mains Extension Policy

Staff supports Atmos' proposal to replace its 150 feet free extension policy with one that uses a computer generated price for a new extension. The computer model estimates the true cost of the main extension and the revenues derived from the extension. Application of traditional financial principles by a computer model is a far more accurate methodology for determining true costs than is the arbitrary "free 150 feet". Under Staff's proposal, Atmos will compensate the first customer as new customers connect to Atmos' system.

WHEREFORE, the Staff submits its Pre-hearing Brief as directed by Commission Order.

Respectfully submitted,

/s/ Robert S. Berlin

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 17th day of November 2006.

/s/ Robert S. Berlin