

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Verified Application and)	
Petition of Atmos Energy Corporation for)	Case No. GO-2009-0046
Establishment of an Infrastructure System)	Tariff No. YG-2009-0116
Replacement Surcharge)	

STAFF REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and for its Staff Report in Case No. GO-2009-0046 states as follows:

1. On August 14, 2008, Atmos Energy Corporation (Atmos or the Company) filed a Verified Application and Petition (Petition) with the Missouri Public Service Commission (Commission) to establish an Infrastructure System Replacement Surcharge (ISRS), pursuant to RSMo¹ Sections 393.1009, 393.1012 and 393.1015 in order to recover costs of ISRS-qualifying plant placed in service from October 1, 2006 through March 31, 2008.
2. These sections, as well as Commission Rule 4 CSR 240-3.265, allow gas corporations to recover certain ISRS costs outside of a formal rate case filing through a surcharge on customers' bills.
3. With its petition, Atmos filed a tariff that would implement the ISRS surcharge effective September 13.
4. On August 15, 2008, the Commission issued its Order Suspending Tariff, Directing Notice, and Setting Intervention Date, suspending the tariff until December 12, 2008 in order to allow sufficient time for parties to review the petition.

¹ All references to RSMo are to the Missouri Revised Statutes 2000, as currently supplemented.

5. On September 5, 2008, the Commission issued an Order Directing Staff To File Report, directing Staff to file a report regarding its examination of Atmos' ISRS filing no later than October 13, 2008.

6. Staff members from the Auditing and Energy Departments participated in Staff's investigation of the application. The investigation included a review of the application, the supporting documentation, RSMo Sections 393.1009, 393.1012 and 393.1015 and additional data provided by Atmos.

7. In the attached memorandum, labeled Appendix A, Staff finds that Atmos has not been correctly recording retirements of property upon completion of new projects.

8. In order to correct the ratio of plant retirements to plant additions, Staff recommends that Atmos apply a ratio representing the historical average of retirements to additions, resulting in a \$10,308 revenue requirement reduction in this ISRS filing.

9. Although certain safety-related replacements qualify as an ISRS-eligible expenditure, Staff recommends the removal by Atmos of project expenditures related to the replacement of meters as ordered in Case No. GE-2003-0007, as that order was based upon the accuracy, and not the safety concerns of the meters.

10. This removal results in a \$44,152 revenue requirement reduction.

11. Furthermore Staff recommends that in order to more accurately reflect the net investments subject to ISRS recovery, that accumulated depreciation and deferred income taxes be calculated through the effective date of the tariff as opposed to the filing date, resulting in an \$18,219 reduction in the Company's revenue requirement.

12. Finally, Staff recommends a reduction of Atmos' revenue requirement in the amount of \$173 to correct an error in the deferred tax calculation.

13. Staff's overall recommendation to the Company's revenue requirement totals a reduction of \$72,853.

14. Staff has verified that the Company has filed its 2007 annual report and is not delinquent of any Commission assessment. Staff is not aware of any other matter before the Commission that affects, or is affected by this filing.

WHEREFORE, based upon the its investigation, Staff recommends that the Commission issue an Order that:

1. Rejects the ISRS tariff sheet YG-2009-0116 filed by Atmos on August 14, 2008;
2. Approves the Staff's determination of the ISRS surcharge revenues in the amount of annual pre-tax revenues of \$408,181, consisting of \$10,332 for the West District, \$99,622 for the Southeast District, and \$298,226 for the Northeast District; and
3. Authorizes Atmos to file an ISRS rate for each customer class as reflected in Appendix B.

Respectfully submitted,

/s/ Eric Dearmont

Eric Dearmont
Assistant General Counsel
Missouri Bar No. 60892

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 9th day of October, 2008.

/s/ Eric Dearmont

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2009-0046 / File No. YG-2009-0116– Atmos Energy Corporation

FROM: Lisa Hanneken, Auditing Department
Lisa Ferguson, Auditing Department
Tom Solt, Tariffs/Rate Design - Energy

/s/ Tom Imhoff 10/09/08
Project Coordinator / Date

/s/ Lera Shemwell 10/09/08
General Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Application of Atmos Energy Corporation Seeking the Missouri Public Service Commission's Approval to Establish an Infrastructure System Replacement Surcharge

DATE: October 9, 2008

BACKGROUND

On August 14, 2008, Atmos Energy Corporation (Atmos or the Company), filed an Application and Petition (Application) to establish an Infrastructure System Replacement Surcharge (ISRS) with the Missouri Public Service Commission (Commission) with a proposed effective date of September 13, 2008. The Commission's Rule 4 CSR 240-3.265; Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges allows Gas corporations to recover certain infrastructure system replacement costs outside of a formal rate case filing through a surcharge on customers' bills. Atmos filed these tariff sheets to reflect a total revenue requirement of \$481,033.

On August 15, 2008, the Commission issued its order, directing notice and setting an intervention date of September 4, 2008. The Commission indicated that it must issue its order regarding this application effective no later than December 12, 2008. It also suspended the proposed ISRS tariff until December 12, 2008.

On September 5, 2008 the Commission set a filing date of October 13, 2008 for Staff's Recommendation. This Memorandum is in response to that Order.

STAFF'S INVESTIGATION

Staff members from the Auditing and Energy Departments participated in the Staff's investigation of the Application. The Staff's investigation into the Application included a review of the Application, the supporting documentation, Missouri statutory sections 393.1009, 393.1012 and 393.1015 RSMo and all additional data provided by Atmos.

THE APPLICATION

In Atmos' current ISRS Application, Case No. GO-2009-0046, Atmos seeks to recover costs of ISRS-qualifying plant placed in service from October 1, 2006 through March 31, 2008. The Company is seeking recovery of \$335,663 for the Northeast District, \$134,518 for the Southeast District, and \$10,851 for the West District, for a total of \$481,033.

STAFF REVIEW

Retirements

The Staff's review consisted of a review of Atmos' Application, a review of selected plant workorders, responses to Staff data requests, and discussions with Atmos personnel. During the Auditing Staff's review of Atmos' ISRS filing, the Staff discovered that the Company had not been correctly booking retirements of property upon completion of new projects. During meetings held with the Company with regard to this issue, the Company indicated to the Staff that retirements were not being recorded in the system due to the Company's belief that the cost of retirements in minimal. However, not entering these retirements resulted in the Company's ISRS filing plant amounts to be overstated and any future filings related to plant would also be overstated. Due to the lack of actual retirement data, the Staff cannot quantify the amount of overstatement. In its filing the Company reported \$3,586,808 of ISRS plant additions during the period covering October 1, 2006 through March 31, 2008. During the same period the Company reported only \$9,217 of related ISRS plant retirements. These reported amounts represent a retirements to additions ratio of less than 1% ($\$9,217 / \$3,586,808$). The Staff conducted an historical examination of the ratio of retirements to additions for all gas ISRS cases that have been filed before this Commission by AmerenUE, Laclede Gas Company and Missouri Gas Energy. Based upon this review, the Staff determined that the overall average ratio of retirements to additions was 9.56%, for all Companies that have filed gas ISRS cases before this Commission. The Staff shared these calculations with Atmos and as a result, the Company and Staff agreed to apply this 9.56% percentage of retirements to the appropriate amount of plant additions. The Staff applied this 9.56% ratio to its \$3,212,385 adjusted level of appropriate ISRS additions to determine a \$307,104 total level of retirements associated with Atmos plant additions. The timely matching of retirements with the associated additions is absolutely essential to the calculation of an appropriate ISRS revenue requirement and must be addressed by the Company immediately. The Company has indicated to Staff that they recognize the problems associated with not booking retirements and are looking into solutions. Staff's adjustment to revenue requirement to account for the additional retirements is a reduction of \$10,308.

Adjustment to Additions

As a part of the Auditing Staff's review, details on several project additions were requested in order to examine expenditures and to determine the appropriateness of inclusion in the ISRS filing. ISRS rule 4 CSR 240-3.265 G (1) for Natural Gas Infrastructure System Replacement Surcharges states that natural gas utility plant projects may only consist of the following: mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition. When reviewing the data provided, some workorder descriptions stated "replace house meters and regulators as mandated by Missouri PSC." Upon further request, the Company cited Missouri Public

Service Commission Case No. GE-2003-0007 as the justification for including those work orders in the ISRS calculation. However, the cited case entails the replacement of meters for the purpose of accuracy rather than for safety reasons. Therefore, Staff is removing these project expenditures as ineligible ISRS additions, which will result in a reduction of \$44,152 in revenue requirement. When a replacement was performed as part of a project pertaining to other ISRS additions, the Staff recognized the cost of the meter.

Accumulated Depreciation and Deferred Taxes through Effective Date of ISRS Rates

In its filing, the Company calculated its offsets to ISRS plant additions for deferred income taxes and accumulated depreciation at March 31, 2008. However, Commission Rule 4 CSR 240-3.265 (12) requires that the Commission issue an Order with an effective date no later than 120 days after the utility files an ISRS petition. The effective date of the customer surcharge for this case is December 12, 2008. Therefore, Staff utilized November 30, 2008 as its cut-off date for the calculation of accumulated depreciation and deferred income taxes. This approach of determining the accumulated depreciation and deferred income taxes matches as closely as possible to the effective date of the ISRS implementation, to more accurately reflect the value of the net investment in ISRS plant in this case. Calculating the accumulated depreciation and deferred income taxes through the effective date, rather than the filing date, results in an \$18,219 reduction in the Company's proposed revenue requirement.

Correction for Error in Deferred Tax Calculation

When the Audit Staff reviewed deferred tax calculations, Staff realized that the Company had an error in the formula of their original filing workpaper. Staff discussed this situation with the Company and the error in the formula was confirmed. Correction of this error resulted in a \$173 decline in the revenue requirement.

STAFF'S REVENUE CALCULATION

The overall reduction to the Company's proposed revenue requirement resulting from the individual Staff adjustments discussed above is \$72,853.

THE ISRS RATE SCHEDULES

The Staff has verified that the Company has filed its 2007 annual report and is not delinquent on any assessment. The Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

P.S.C. MO. No. 2

1st Revised SHEET NO. 19, Cancelling (Original) SHEET NO. 19
1st Revised SHEET NO. 22, Cancelling (Original) SHEET NO. 22
1st Revised SHEET NO. 24, Cancelling (Original) SHEET NO. 24
1st Revised SHEET NO. 26, Cancelling (Original) SHEET NO. 26
1st Revised SHEET NO. 28, Cancelling (Original) SHEET NO. 28
1st Revised SHEET NO. 31, Cancelling (Original) SHEET NO. 31

RECOMMENDATION

Based upon the above, the Staff recommends that the Commission issue an order in this case that:

1. Rejects the ISRS tariff sheet (YG-2009-0116) filed by Atmos on August 14, 2008;
2. Approves the Staff's determination of the ISRS surcharge revenues in the amount of annual pre-tax revenues of \$408,181, consisting of \$10,332 for the West District, \$99,622 for the Southeast District, and \$298,226 for the Northeast District; and
3. Authorizes Atmos to file an ISRS rate for each customer class as reflected in Appendix B.

Atmos Energy Corporation

CASE NO. GO-2009-0046

ISRS RATE DESIGN

ISRS RATE FILING NO.1

Northeast District

Staff's Total ISRS Revenue Calculation Northeast District **\$298,226**

<u>Customer Rate Class</u>	<u>Number of Customers</u>	<u>Customer Charge</u>	<u>Ratio To Residential Customer Charge</u>	<u>Weighted Customer Nos.</u>	<u>Customer Percentage</u>	<u>ISRS Charge</u>	<u>ISRS Revenues</u>
Firm Residential	16,943	\$20.61	1.0000	16,943	79.9397%	\$1.17	\$238,401
Small Firm GS	1,951	\$20.61	1.0000	1,951	9.2029%	\$1.17	\$27,445
Medium Firm GS	489	\$75.00	3.6390	1,780	8.4003%	\$4.27	\$25,052
Large Firm GS	24	\$350.00	16.9820	405	1.9096%	\$19.91	\$5,695
Interruptible Large Volume	7	\$350.00	16.9820	116	0.5475%	\$19.91	\$1,633
Total	<u>19,413</u>			<u>21,194</u>	100.0000%		\$298,226

-\$569 *

* Due to rounding to the nearest penny, the designed ISRS rates willUnder collect by \$-569
. However, it should be noted that the total amount collected will be trued-up at a later date.

\$297,657

Atmos Energy Corporation

CASE NO. GO-2009-0046

ISRS RATE DESIGN

ISRS RATE FILING NO.1

Southeast District

Staff's Total ISRS Revenue Calculation Southeast District

\$99,622

<u>Customer Rate Class</u>	<u>Number of Customers</u>	<u>Customer Charge</u>	<u>Ratio To Residential Customer Charge</u>	<u>Weighted Customer Nos.</u>	<u>Customer Percentage</u>	<u>ISRS Charge</u>	<u>ISRS Revenues</u>
Firm Residential	29,750	\$13.92	1.0000	29,750	79.5127%	\$0.22	\$79,212
Small Firm GS	3,382	\$13.92	1.0000	3,382	9.0391%	\$0.22	\$9,005
Medium Firm GS	599	\$75.00	5.3879	3,227	8.6258%	\$1.20	\$8,593
Large Firm GS	29	\$350.00	25.1437	729	1.9488%	\$5.58	\$1,941
Interruptible Large Volume	13	\$350.00	25.1437	327	0.8736%	\$5.58	\$870
Total	<u>33,773</u>			<u>37,415</u>	100.0000%		\$99,622

-\$716 *

* Due to rounding to the nearest penny, the designed ISRS rates will Under collect by \$-716
. However, it should be noted that the total amount collected will be trued-up at a later date.

\$98,906

Atmos Energy Corporation
CASE NO. GO-2009-0046
ISRS RATE DESIGN
ISRS RATE FILING NO.1
West District

Staff's Total ISRS Revenue Calculation West District

\$10,332

<u>Customer Rate Class</u>	<u>Number of Customers</u>	<u>Customer Charge</u>	<u>Ratio To Residential Customer Charge</u>	<u>Weighted Customer Nos.</u>	<u>Customer Percentage</u>	<u>ISRS Charge</u>	<u>ISRS Revenues</u>
Firm Residential	3,536	\$19.43	1.0000	3,536	80.6040%	\$0.20	\$8,328
Small Firm GS	434	\$19.43	1.0000	434	9.8931%	\$0.20	\$1,022
Medium Firm GS	80	\$75.00	3.8600	309	7.0392%	\$0.76	\$727
Large Firm GS	4	\$350.00	18.0134	72	1.6425%	\$3.54	\$170
Interruptible Large Volume	2	\$350.00	18.0134	36	0.8212%	\$3.54	\$85

Total	<u>4,056</u>			<u>4,387</u>			\$10,332
							<u>\$180</u> *

* Due to rounding to the nearest penny, the designed ISRS rates willOver collect by \$180
. However, it should be noted that the total amount collected will be trued-up at a later date.

\$10,512

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Verified Application and)
Petition of Atmos Energy Corporation for)
Establishment of an Infrastructure System)
Replacement Surcharge.)

Case No. GO-2009-0046

AFFIDAVIT OF LISA K. HANNEKEN

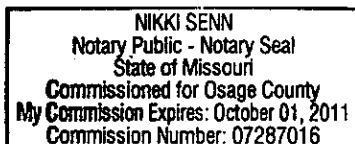
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lisa K. Hanneken, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.


Lisa K. Hanneken

Subscribed and sworn to before me this 8th day of October, 2008.


Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

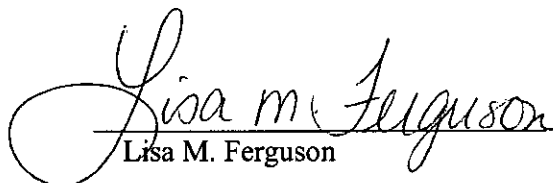
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Case No. GO-2009-0046

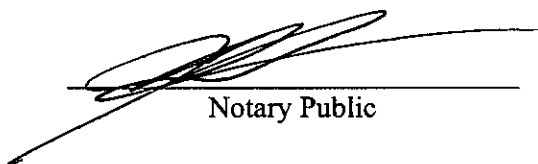
AFFIDAVIT OF LISA M. FERGUSON

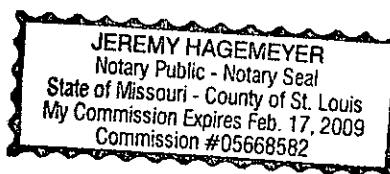
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lisa M. Ferguson, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.


Lisa M. Ferguson

Subscribed and sworn to before me this 7th day of October, 2008.


Notary Public



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

In the Matter of the Verified Application)
and Petition of Atmos Energy Corporation)
for Establishment of an Infrastructure)
System Replacement Surcharge.)

Case No. GO-2009-0046

AFFIDAVIT OF TOM SOLT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Tom Solt, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Report in memorandum form, to be presented in the above case; that the information in the Staff Report was provided to him; that he has knowledge of the matters set forth in such Staff Report; and that such matters are true to the best of his knowledge and belief.

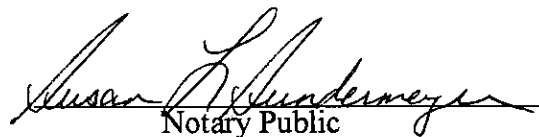


Tom Solt

Subscribed and sworn to before me this 7th day of October, 2008.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086



Notary Public