Exhibit No.:
Issue: Rate Design

Witness: Mark A. Martin
Type of Exhibit: Direct Testimony
Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2010-
Date Testimony Prepared: December 17, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2010-

DIRECT TESTIMONY

OF

MARK A. MARTIN

ON BEHALF OF

ATMOS ENERGY CORPORATION

DECEMBER, 2009

INDEX TO THE DIRECT TESTIMONY

OF MARK A. MARTIN

WITNESS ON BEHALF OF

ATMOS ENERGY CORPORATION

BEFORE THE

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. _____

PREPARED DIRECT TESTIMONY

OF

Mark A. Martin

On Behalf of

ATMOS ENERGY CORPORATION

I. POSITION AND QUALIFICATIONS

Q. Please state your name, position and business address.

A. My name is Mark A. Martin. I am Vice President – Rates & Regulatory Affairs for Atmos Energy Corporation's ("Atmos" or "Company") Kentucky/Mid-States Division which includes Missouri operations. My business address is 3275 Highland Pointe Drive, Owensboro, KY 42303-2114.

Q. Please briefly describe your current responsibilities, and professional and educational background.

A. I am responsible for Rates and Regulatory Affairs matters in the states of Illinois, Iowa, Kentucky, and Missouri. I graduated from Eastern Illinois University in 1995 with a degree in Accounting. I have been with United Cities Gas Company and subsequently Atmos Energy Corporation since September 1995. I have served in a variety of positions of increasing responsibility in both Gas Supply and Rates prior to assuming my current responsibility in 2007.

Q. Have you previously testified before this Commission?

A. No. However I have testified before the Regulatory Agencies in Illinois, South Carolina and Georgia in numerous proceedings.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain how Atmos has satisfied the Missouri Public Service Commission's ("Commission") minimum filing requirements ("MFR"); to support the rate design, rates and tariff changes proposed in this filing; and to sponsor special contracts with two industrial customers, Noranda Aluminum and General Mills.

Q. Are you sponsoring any Schedules in this proceeding?

A. Yes. I am sponsoring Schedule MAM-1 pertaining to the Company's fixed delivery charge rate design and its impact on energy efficiency and conservation; Schedule MAM-2 pertaining to rate design and proposed rate calculations in this proceeding; and Schedules MAM-3 HC and Schedule MAM-4 HC which pertain to special contracts. Schedules MAM-5 through MAM-8 are periodicals from the American Gas Association.

III. MINIMUM FILING REQUIREMENTS

Q. What is the purpose of this part of your testimony?

A. My purpose is to confirm that Atmos has satisfied the Commission's MFR, as set forth in 4 CSR 240-3.030 and 4 CSR 240-3.235. The MFRs can be located behind the tab labeled "Minimum Filing Requirements."

Q. How did Atmos satisfy the MFR?

A. The following information was prepared addressing the specific requirements of the MFR as outlined in 4 CSR 240-3.030(3):

A. Letter of transmittal

B. General information, including:

1. the amount of dollars of the aggregate annual increase and percentage over current revenues;
2. names of counties and communities affected;
3. the number of customers to be affected;
4. the average change requested in dollars and percentage change from current rates;
5. the proposed annual aggregate change by general categories of service and by rate classification;
6. press releases relative to the filing; and
7. a summary of reasons for the proposed changes.

Q. Are you sponsoring this information?

A. Yes.

Q. Was this information prepared under your direct supervision?

A. Yes, it was.

Q. How has the Company satisfied the provisions of 4 CSR 240-3.235, concerning a depreciation study, database and property unit catalog?

A. In Case No. GE-2009-0443, the Company applied for and received approval of an Application for Variance and Waiver from the portion of 4 CSR 240-3.235 requiring Atmos to file a new depreciation study in its next general rate case. As set forth in the Commission's September 26, 2009 Order, the approved stipulation and agreement contained conditions associated with the grant of the waiver which required the Company to file a rate case by December 31, 2009, use existing depreciation rates approved in GR-2006-0387, and remove the negative amortization of the depreciation reserve approved in GR-2006-0387. As the record will reflect, the Company has met these conditions in this proceeding. The Company has made great strides in regards to the revintaging project, which was undertaken to bridge gaps in the vintage records for some of Atmos' acquired properties. The project is on target for completion by spring of 2010. The Company plans to conduct its next depreciation study with data through September 30, 2010, and such study should be completed in early 2011. The Company will file a complete depreciation study in its next rate case.

Q. Is the Company proposing any changes to its existing special charges?

A. Only with regard to the seasonal reconnect fees for the Medium General Service Class. The Company's special charges were last updated in GR-2006-0387. The Company believes that since so little time has passed since instituting updated special charges, all other existing special charges are appropriate at this time. I

will discuss the seasonal reconnect fees for the Medium General Service class later in my testimony.

IV. RATE DESIGN AND PROPOSED RATES

Q. What are the primary rate design objectives of the Company in this case?

A. The Company strives to remain a low-cost, efficient natural gas service provider as we continue to provide excellent customer service, the safe and reliable delivery of natural gas, and to be a good corporate citizen in the Missouri communities we serve. Our rate design should support these objectives and, to that end, the Company is proposing certain rate design features which remove avoidable uncertainties for customers, shareholders and regulators.

Atmos' tariff and rate design proposals include recommendations that the Commission:

A) Approve the continued use of a Straight Fixed Variable ("SFV") rate structure for the Company's Residential and Small General Services classes, applied to the existing three rate districts. The Company is proposing to change how Commercial customers are categorized into the Small, Medium and Large General Service;

B) Remove the gas cost portion of bad debt write-offs from base rate expenses and recover it through the PGA. Gas costs have varied dramatically from year to year, due both to price and weather-driven customer volumes. Since bad debt write off expenses tend to track the level of gas costs, setting a fixed

expense level for bad debt gas costs in this Case introduces unnecessary recovery risks for our customers and the Company;

C) Approve the Company's allocation of its requested increase among customer classes and make the resulting rate calculations; and

D) Shift the funding of the Company's Energy Efficiency and Conservation Program ("Conservation Program") from the Company's shareholders to the Company's customers. Also, the Company proposes that the Conservation Program's Collaborative Group become advisory in nature, rather than requiring consensus for all actions taken.

A. Straight Fixed Variable Rate Design, Rate Districts and Commercial Customer Classification

Q. Is SFV rate design a new rate design concept?

A. No. Although the Company was the first in Missouri to be granted an SFV rate design, it is by no means a new concept.

Q. Please explain.

A. The SFV rate design is a form of decoupling. Decoupling mechanisms have been around for at least twenty (20) years. According to the July 2009 American Gas Association ("AGA") Decoupling and Natural Gas Utilities Fact Sheet (See Schedule MAM-5), thirty-one (31) utilities in eighteen (18) states have implemented various decoupling tariffs that serve twenty (20) million residential customers. Also, revenue decoupling cases are pending before another two (2) state utility commissions.

Q. Please explain decoupling.

A. The term decoupling is associated with breaking the link between volumes consumed and revenues. Under the Company's previous rate design, a utility's earnings are tied to volumes sold. The greater the volumes sold, the greater the revenue earned. Revenue decoupling is a rate design method that allows utilities to actively promote energy efficiency and customer conservation while preventing the erosion of margins that is the usual outcome of customer conservation and utility energy efficiency. The SFV rate design represents a superior approach to traditional rate design because it aligns the financial interests of the Company with those of its customers. The SFV rate design is and has been beneficial to high-use customers, many of whom are from low-income households, because a portion of their bill becomes fixed and is therefore not vulnerable to weather. The SFV rate design sends clear and meaningful price signals, eliminates intraclass cross-subsidies, encourages further conservation efforts, moderates seasonal bill fluctuations and eliminates the prospect of over- and under-recovery of fixed distribution costs.

Q. Does SFV distort price signals?

A. Absolutely not. The cost of gas ranges between 70-80% of a customer's bill. Since the cost of gas is a tradable commodity, the cost of gas will continue to fluctuate. As a result, the PGA mechanism will continue to change and customers will still have incentive to conserve. Every Mcf of gas conserved is a Mcf of gas that the Company does not need to purchase for its customers.

Q. Please list the other states that have already implemented decoupling mechanisms or have mechanisms pending.

A. Per a July 2009 AGA map (see Schedule MAM-6), the following states have approved some form of decoupling mechanism: Washington, Oregon, California, Nevada, Utah, Colorado, Arkansas, Illinois, Indiana, Wisconsin, Ohio, North Carolina, New York, New Jersey, Massachusetts, Virginia, and Maryland. The following states have mechanisms pending: Minnesota and Michigan. In addition, last month, Chattanooga Gas Company filed a decoupling proposal in Tennessee. Finally, per another July 2009 AGA map (see Schedule MAM-7), an additional four (4) states have approved a flat monthly fee rate design. Those states are Georgia, North Dakota, Oklahoma and Missouri.

Q. Are there examples demonstrating the success of decoupling?

A. Yes. One has to look no further than Atmos' experience here in Missouri to see how the straight fixed variable rate design for our residential and small commercial customers continues to align the customers' and the Company's interests and allows the Company to pursue energy efficiency/conservation programs without losing margins to reduced natural gas usage. Incenting and encouraging these customer classes to reduce their natural gas usage is a win/win for the customer and the Company. Attached hereto as **Schedule MAM-1** and incorporated by reference is the **Annual Report of Atmos Energy Corporation Regarding the Company's Fixed Delivery Charge Rate Design and Its Impact on Energy Efficiency and Conservation**. As noted in its introduction, this document provides data and narrative that incorporates parameters previously identified by the Collaborative for such evaluation.

Q. Was Schedule MAM-1 prepared by you or under your direct supervision?

A. Yes, it was.

Q. Do you have other examples demonstrating the success of decoupling?

A. Yes. Pursuant to the aforementioned AGA Fact Sheet, "California began natural gas decoupling in 1978 and electric decoupling in 1982. Since 1970, California has reduced its per person residential energy consumption by nineteen (19) percent, while residential energy use per person for the United States overall increased by nine (9) percent." Also, "a study by the Oregon Public Utilities Commission found that customer bills remained stable, the utility improved its ability to recover fixed costs and the utility's advertising focus shifted from marketing to conservation."

Q. Was decoupling discussed as part of the American Recovery and Reinvestment Act of 2009 ("ARRA")?

A. Yes. According to the ARRA, "the Secretary shall make grants under this section in excess of the base allocation established for a State under regulations issued pursuant to the authorization provided in section 365(f) of such Act only if the governor of the recipient State notifies the Secretary of Energy that the governor will seek, to the extent of his or her authority, to ensure that each of the following will occur: (1) The applicable State regulatory authority will implement the following regulatory policies for each electric and gas utility with respect to which the State regulatory authority has ratemaking authority: (A) Policies that ensure that a utility's recovery of prudent fixed costs of service is timely and independent of its retail sales without, in the process, shifting prudent costs from variable to fixed charges. This cost shifting constraint shall not apply to rate

designs adopted prior to the date of enactment of this Act. (B) Cost recovery for prudent investments by utilities in energy efficiency."

Q. Has the Missouri Legislature addressed this issue?

A. The Company believes that the Missouri Legislature has spoken through Senate Bill 179 ("SB 179") which underscores the desirability of revenue stability for Missouri's LDCs. SFV rate design provides such stability.

Q. Are there other forms of alternative rate designs being utilized across the country?

A. Yes. The Company is aware of various innovative rate mechanisms and rate designs that have been adopted across the nation. Besides decoupling, the Company is also familiar with an alternative rate mechanism described as "rate stabilization." Eight companies within six jurisdictions have approved rate stabilization plans, wherein annual adjustments are made to address the difference, if any, between the authorized level of revenues and the amounts actually collected.

Q. Would the Company consider alternative rate designs to SFV?

A. Yes. The Company believes strongly in breaking the link between volumes and revenues, but would ultimately consider alternatives to SFV if those alternatives afforded the Company a more meaningful opportunity to earn a fair return.

Q Please discuss rate district consolidation.

A. Prior to GR-2006-0387, the Company had six sets of base tariffs for its Missouri service areas. The areas were referred to as District B (Butler), District K (Kirksville), District S (Southeast Missouri), District G (Rich Hill/Hume), District

U (Hannibal/Canton/Palmyra/Neelyville), and District P (Palmyra). Districts B, K and S are properties formerly operated by Associated Natural Gas Company. District G includes properties formerly operated by Greeley Gas Company. Districts U and P are properties formerly operated by United Cities Gas Company. The six rate areas were the result of the fact that the Company acquired its Missouri service territory in three separate acquisitions. Each one of these acquisitions was approved by the Commission signaling that the Commission did not find any of the transactions detrimental to the public interest. In none of the orders approving the acquisitions did the Commission impose any conditions or requirements that would prohibit the consolidation of rates, nor did the Orders suggest that such consolidation would be detrimental to the public interest.

In GR-2006-0387, the Company examined several different scenarios for combining these disparate areas. Although the Company would prefer a full statewide consolidation of all delivery charges, as part of GR-2006-0387, the Company agreed to an SFV rate design which would vary depending on the geographic area in which the customer lives. These geographic areas are designated as Northern, Southern, and Western.

Q. Why did the Company choose to group the customers in Northern, Southern and Western regions?

A. These regions were chosen to consolidate customers in the same geographic proximity into the same rate area. Please refer to the testimony of Mr. Tom Petersen which discusses rate district consolidation in more detail. The cost of

equipment, customer service and corporate overhead are the same for all districts. The Company is unaware of any justification to reverse the rate district consolidation approved by the Commission in GR-2006-0387.

Q. Are there any benefits to consolidating districts?

A. Yes. The consolidation of districts is a "win-win" for all. One of the primary customer benefits of rate consolidation is bill comparability. Consolidation into three rate areas eliminates most of the customer confusion resulting from multiple rate areas since all customers within a geographic area have the same set of rates. Occasionally, customers will "look over the fence" and question why their rates differ from their neighbors in surrounding areas. For the Company as well as the Commission, this proposal simplifies the administration of the tariffs. Prior to the district consolidation, the Company and Commission's customer service representatives had to identify the specific service area in which the customer resided to be able to respond to customer inquiries regarding the appropriate rates for each customer.

Q. Is the Company aware of any customer complaints as a result of the district consolidation?

A. No.

Q. Please describe the proposed change for classifying Commercial customers into the Small, Medium and Large General Service.

A. The Company is proposing to classify customers by meter type rather than by consumption. The Company believes that by using meter type, customers will be classified less arbitrarily. Currently, the Company's tariff does not contemplate

or address customer migration from one service classification to another due to changes in consumption. A fixed annual consumption breakpoint presently defines whether a commercial customer is classified as either Small, Medium or Large. Customers' consumption is impacted by a variety of factors, including, but not limited to weather and changes in business and/or competition. The Company believes that classifying customers by meter type is fairer and eliminates the need for a periodic review of the customer's consumption history or pattern.

Q. Please continue.

A. The Company proposes grouping all Type A and Type B meters into the Small General Service and all non-Type A and non-Type B meters into the Medium and Large General Services. The Company recommends keeping the existing annual threshold between Medium and Large General Service at 75,000 Ccf.

Q. Is the Company proposing any changes to its seasonal reconnect fee?

A. Yes, but only for the Medium General Service ("MGS") class.

Q. Why is the Company proposing to change its seasonal reconnect fee for the Medium General Service class?

A. The current seasonal reconnect fees range from $73 to $96 in the Northern and Western districts, respectively. The current delivery charge for the MGS class is $75 per month for all districts with a proposed increase to $100 per month for all districts. For MGS customers in the Northern district, the current seasonal reconnect fee is less than a monthly delivery charge. For MGS customers in the other two districts, the seasonal reconnect fee is slightly higher than the monthly

delivery charge. The Company does not believe that this oversight was in the spirit of the tariff. The seasonal reconnect fee was designed to encourage customers to remain active throughout the year.

Q. What is the Company's proposed change for the seasonal reconnect fee?

A. The Company proposes to institute a three and one half month cap based on the delivery charge for the MGS class. The cap calculation would be consistent with current practice for Residential and Small General Service ("SGS"), but would clarify that the fee would be based on the delivery charge for Residential, SGS and MGS, as applicable to the seasonal account. The seasonal fee would be computed as the number of days off system divided by 30 days times the applicable tariff monthly Delivery Charge under the applicable Residential, Small General Service, Medium General Service or Large General Service tariff.

B. Purchased Gas Adjustment Mechanism

Q. Is the Company proposing any changes to the Purchased Gas Adjustment ("PGA") mechanism?

A. Yes. The Company is proposing two changes to its existing PGA tariff. First, the Company proposes to adjust the PGA tariff for the ability to halt or zero out an Actual Cost Adjustment ("ACA") factor once a de minimis balance is reached. The Company has made several waiver requests during this past year seeking to halt or zero out a specific ACA factor. All waiver requests were approved by the Commission. The tariff change is designed to mirror current practice and eliminate the need to frequently file for waivers with regard to the Company's ACA factors. The Commission would still continue to approve all PGA rates

prior to implementation. Finally, the Company proposes to collect the gas cost portion of bad debt through the PGA mechanism.

Q. Please discuss in more detail the proposed collection of the gas cost portion of bad debt through the PGA mechanism.

A. Historically, gas prices were relatively stable over time. Uncollectibles expenses, in the context of a rate case, based upon test period uncollectibles expense or an average of such expenses over several years, were generally considered to be a representative level of expense that the Company would experience on a going-forward basis. However, with the gas supply price volatility experienced in the past decade, averaging or projecting the appropriate level of uncollectibles expense to be included in the Company's base rates is certain to produce a result that is either too high or too low. Neither scenario benefits the consumer or the Company. For deficiency calculation purposes, the Company has included $539,743 for recovery of uncollectible expense. The calculation of this amount is explained in the testimony of Company witness Robert Hassen. If the Company's proposal to recover these costs through the PGA is not accepted and actual uncollectibles are higher than calculated in this proceeding, the Company will not have the opportunity to recover the excess uncollectible amount without filing another general rate case and including the higher amount in base rates. On the other hand, if uncollectibles are lower than calculated in this proceeding then customers will not have the opportunity to benefit from the lower amount and will pay more than the actual uncollectible amount.

Q. Does the Company have this type of recovery in other jurisdictions?

A. Yes. The Company is currently allowed recovery of the gas cost portion of bad debt in its Tennessee, Virginia, Kansas, and Texas jurisdictions. These authorizations for moving recovery of these costs from base rates to the PGA have all come in recent years, since gas cost volatility has become an increasing challenge. The Company also has similar proposals pending in its Kentucky, Mississippi and Colorado jurisdictions.

Q. Are their other jurisdictions outside of the Company's footprint that have approved such type of recovery?

A. Yes. According to the December 2008 AGA Natural Gas Rate Round-Up (See Schedule MAM-8), at least twenty jurisdictions have adopted innovative bad debt cost recovery mechanisms.

Q. Why should the uncollectible portion of gas costs be treated differently than other expenses traditionally included in the Company's cost of service?

A. There is a clear distinction between the uncollectible portion of gas costs and other expenses included in a company's cost of service. The total bad debt expense is directly related to the total billings for residential, commercial and public authority accounts, which is largely driven by gas costs and volumes consumed. As I said earlier, gas costs have exhibited much greater volatility in recent years due to national market issues beyond our local control. Providing for recovery of these gas costs through the PGA is logical and eliminates the risk for customers and the Company that the level of expense set in base rates is too high or too low in future periods.

Q. Would allowing recovery of these costs through the PGA mechanism create a disincentive for Company to aggressively pursue the recovery of bad debts?

A. Absolutely not. Allowing recovery of the gas cost portion of bad debt does not create an incentive for the utility to deemphasize the collection of bad debts for two reasons. First, the Company would continue to have $136,089 included in its base rates related to the margin portion of uncollectible accounts. If collection efforts became lax and more write-offs were to occur, the Company would be exposed to incremental margin losses above those included in our base rates. Second, pursuant to the Company's proposal, when less than 100% of a written-off account is subsequently collected, priority is given to the gas cost portion and therefore the Company will still experience the loss of margin. Therefore, the Company would retain every incentive to remain vigilant and maintain tight collection practices.

Q. How does giving priority to the gas cost portion of bad debt impact the Company and the Customer?

A. I will explain it with a brief example. Assume for purposes of the example that the Company has written off an account totaling $1,000. Of this amount, $200 is margin and $800 is gas cost. Subsequent to the account being written off, the customer agrees to pay $800 to have service restored. The Company would then put the customer on a payment plan for the remaining $200. Pursuant to the Company's proposal, when the customer pays the $800, priority would be given to the gas cost that had been written off, and thus this amount would be credited

back to the PGA in its entirety for the PGA customer's benefit. The Company would still be at risk for the $200 of associated margin.

Q. Please summarize your testimony on why the Company is seeking to recover the gas cost component of bad debt through the PGA.

A. The historical practice of addressing the gas cost component of uncollectibles in base rates no longer makes sense in this era of volatile gas costs. There is no reasonable mechanism to predict on a going-forward basis that these uncollectibles will be based on past experience. We believe the Company's PGA is intended to provide recovery of 100% of the costs it prudently incurs in procuring gas for its customers – no more, no less. The PGA mechanism, which the Company has experience with in several of its other jurisdictions, results in a more accurate and timely recovery of such expense. Therefore, the Company believes that it should be authorized to recover the gas cost component of uncollectibles through the PGA mechanism.

C. Allocations and Calculations of the Resulting Rates

Q. Please describe how the Company has designed rates in this proceeding.

A. Included with my testimony is **Schedule MAM-2**. This Schedule utilizes the normalized test period billing determinants and test period volumes provided by Company witness Gary Smith. Those billing units, by district are found on Schedule COS-3, in columns (m) and (n). This is the appropriate place to begin allocating the Company's requested increase among customer classes and calculate the resulting rates.

Q. Please continue.

A. The first step was to allocate the proposed increase by district. The second step was to attempt to be as consistent as possible in determining the rates for each class within each district.

Q. How did you arrive at the recommended customer charges?

A. I used the Class Cost of Service Study prepared by Mr. Petersen as a guide. That guide was only used as a reference. In applying the proposed increase, I was conscious of attempting to be consistent with the percentage increases by class and by district. I believe that the proposed rates offer a fair distribution of the Company's proposed increase.

Q. Are there any exceptions to this pro-rata approach to spreading the overall requested increase?

A. Yes. Special contracts are not allocated any of the Company's proposed revenue increase. The special contracts, supported and described later in my testimony, are not tariff based charges, and thus are not included when allocating the increases in revenue

Q. WHAT ARE THE PROPOSED RATES BY CLASS AND DISTRICT?

A. The proposed rates for each class are itemized by district in the table below:

	Residential	SGS	MGS	LGS/I&T
NEMO	$33.23	$51.65	$100.00	$500.00
SEMO	$21.27	$33.38	$100.00	$500.00
WEMO	$29.99	$46.89	$100.00	$500.00

D. The Company's Energy Efficiency and Conservation Program

Q. Is the Company proposing any changes to its Conservation program?

A. Yes. The Company proposes to keep all existing programs, but to create a recovery mechanism in which the funding would be borne by the Company's customers versus the Company's shareholders.

Q. Please explain.

A. The Company believes that its customers benefit from the programs and should ultimately bear the costs for them. The Company is not aware of any conservation programs in Missouri or anywhere else in the Country that are fully shareholder funded. For example, Missouri Gas Energy has a SFV rate design and its customers are responsible for the costs of their conservation program. Further, as mentioned earlier in my testimony, the ARRA encouraged "cost recovery for prudent investments by utilities in energy efficiency."

Q. Please continue discussing the recovery mechanism.

A. The Company proposes to compute a volumetric rate to collect all projected program costs over the next twelve-month period and divide those expected costs by expected Ccf sales for the same period. In addition, the Company recommends a balancing adjustment to keep the program cost accurate. The balancing adjustment will insure that the Company does not collect too much or too little of any residual balance.

Q. How does the Company plan to bill the proposed recovery mechanism?

A. The Company proposes to collect costs associated with the weatherization and conservation components from the Residential class only and to collect costs associated with the rebate component from both the Residential and Small General Service (SGS) classes.

Q. What is the basis for this approach?

A. The Company's proposed method is based purely on which class of customers would benefit from each program component. Since rebates are available to both Residential and SGS customers, both classes should absorb the cost of the program component. The Company believes that this approach is fair and reasonable.

Q. Will the Company continue to administer its Conservation program using a collaborative effort?

A. Yes, however the Company believes that the collaborative should be advisory rather than requiring "consensus". If a consensus cannot be reached among the members of the collaborative, the Company should be able to make the final decision on how to proceed. Since the Company is ultimately responsible for explaining and defending decisions regarding the Conservation program before the Commission, the Company should have the right to make the final decision.

V. SPECIAL CONTRACTS

Q. Are you sponsoring any special contracts or agreements that Atmos has with any of its customers?

A. Yes. I am sponsoring two special contracts currently in effect with two of the Company's industrial customers in the State of Missouri. Noranda Aluminum, which is located in New Madrid County, Missouri, is under contract with the Company as is General Mills which is located in Hannibal, Missouri.

Q. Are either of these customers affiliated with Atmos?

A. No.

Q. Describe the Company's contract with Noranda Aluminum.

A. The contract, **Schedule MAM-3 HC**, went into effect on January 1, 2003. The term of the contract is for a ten year period and stipulates the general terms and conditions for the Company to provide natural gas transportation service to Noranda. Please note that this Schedule is deemed **HIGHLY CONFIDENTIAL** and should be treated accordingly.

Q. What is the purpose of Atmos' contract with Noranda Aluminum?

A. On April 20, 2000, an Order in Case No. GM-2000-312 was issued by the Commission which authorized the sale and transfer of certain assets of Associated Natural Gas Company (ANG) to the Company. As part of that Order, the Company agreed to accept assignment of and otherwise honor the existing contract between ANG and Noranda Aluminum. The Order provided that Atmos would continue to interpret and follow the provisions of such contract in accordance with the past practices of ANG and Noranda. The Company adhered to the Order and, prior to the contract's expiration, entered into a new contract that was similar in nature to the ANG/Noranda agreement. The Company believes its current agreement with Noranda is fair and equitable for Noranda, the

Company and the Company's other customer classes. In addition, Noranda is a major employer in the Southeast Missouri area and its business is very energy intensive in nature. Noranda competes against other aluminum plants across the country, and those plants with the lowest energy costs are able to price their product in the most competitive manner. Therefore, the Company believes it is in the best interest of all Southeast Missouri residents for Noranda to minimize their energy costs, including natural gas transportation delivery costs, in order to remain competitive and sustain a viable operation.

Q. Are there any other reasons for the Company's special contract with Noranda?

A. Yes. The Company believes that Noranda has the option to bypass the Company's distribution system and obtain a direct connect with Texas Eastern Transmission Company (TETCO). Although the Noranda plant is located approximately seventeen miles from TETCO, it was determined that Noranda had the capital resources to fund a project of this nature. If the Company were to charge the full tariff rate to Noranda, this investment would have been an attractive option to them.

Q. Describe the Company's contract with General Mills.

A. The contract, **Schedule MAM-4 HC**, went into effect on March 1, 2005. The term of the contract is for a five year period and stipulates the general terms and conditions for the Company to provide natural gas transportation service to General Mills. Please note that this Schedule is also deemed **HIGHLY CONFIDENTIAL** and should be treated accordingly.

Q. What is the purpose of Atmos' contract with General Mills?

A. The General Mills plant is unique in that it is located adjacent to Panhandle Eastern Pipeline Company (PEPL). The meter location at the plant is located within 1400 feet of PEPL's pipeline facilities. A direct connect to PEPL is a viable alternative for General Mills and would require only a minimal investment. The Company felt it was necessary to enter into a special contract and offer a reduced rate in an effort to prevent bypass of our distribution system and retain their business.

Q. Why are the special contracts with Noranda and General Mills in the best interest of the Company's Missouri customers?

A. Both contracts benefit the Company's Missouri ratepayers because, even with the discounted contract rates, both customers contribute substantially to the Company's fixed and variable costs in Missouri. Without the benefit of these customers, their transportation loads and associated revenue, more of the Company's costs would be paid by the other Missouri ratepayers. Moreover, as pointed out previously in my testimony, the Company's ability to provide discounted transportation service to these customers enables them to more effectively control their energy costs, thereby making them more competitive in their respective industries and marketplaces. Support of healthy and competitive industry in Missouri benefits the State's economy and promotes continued growth.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Atmos Energy Corporation's Tariff Revision Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))	Case No. GR-2010-

AFFIDAVIT OF MARK A. MARTIN

STATE OF KENTUCKY)
) **ss**
COUNTY OF DAVIESS)

Mark A. Martin, being first duly sworn on his oath, states:

1. My name is Mark A. Martin. I work in Owensboro, Kentucky, and I am employed by Atmos Energy Corporation, as the Vice President – Rates & Regulatory Affairs for Atmos Energy Corporation's Kentucky/Mid-States Division.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Atmos Energy Corporation consisting of _____(__) pages and Schedules MAM-1 through MAM-8, 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.

Mark A. Martin

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

Notary Public

My commission expires: 11/15/2011

SCHEDULE MAM-1

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

ANNUAL REPORT OF ATMOS ENERGY CORPORATION REGARDING THE COMPANY'S FIXED DELIVERY CHARGE RATE DESIGN AND ITS IMPACT ON ENERGY EFFICIENCY AND CONSERVATION

A. BACKGROUND

Pursuant to the Commission's Report and Order ("Order") issued in this matter on February 22, and effective March 4, 2007, Atmos Energy Corporation ("Atmos" or "Company") is submitting its Second Annual Report regarding the Company's fixed delivery charge rate design and its impact on energy efficiency and conservation. The First Annual Report was submitted November 24, 2008 and accepted by the Commission on February 21, 2009. This Second Annual Report provides data and narrative that incorporates parameters previously identified by the Collaborative for evaluating the program, including: program participation, increased affordability, arrears, late payments, disconnects/reconnects, uncollectibles, customer usage, and payments.

B. REPORT

1. Overview

During the second program year the Company allocated an additional $172,775 to the three energy efficiency and conservation program components as recommended by the Collaborative. For the third program year another $167,410 has been allocated, bringing the total commitment to over one-half million dollars. The straight fixed variable rate design for our residential and small commercial customers continues to align the customer's and Company's interest and allows the Company to pursue energy efficiency/conservation programs without losing margins to reduced natural gas usage. Incenting and encouraging these customer classes to reduce their natural gas usage is a win/win for the customer and the Company.

2. Energy Efficiency & Conservation Program Highlights

While our first program year focused on establishing the programs, the second year has seen a marked increased in participation and the expenditure of funds. Fifty-seven (57) low-income homes were weatherized, 85 high efficiency furnace rebates were issued, and nine presentations were made to elementary school children throughout our service area. These numbers reflect percentage increases of between 185% and 475% over our first year production. With production up naturally expenditures also showed a marked increase. The following table provides the results for the first and second program years.

	Rebates			Weatherization			Customer Education		
Program Year	*Allocation*	*Expended*	*Rebates Issued*	*Allocation*	*Expended*	*Homes Weatherized*	*Allocation*	*Expended*	*Schools Served*
2007	$60,000	$11,500	46	$100,000	$16,859	12	$5,000	$2,282	3
2008	60,000	21,250	85	100,000	133,766	57	12,775	5,112	9
Totals	$120,000	$32,750	131	$200,000	$150,625	69	$17,775	$7,394	12

In an effort to determine the impact of the *High Efficiency Space Heating Rebates*, consumption data was weather normalized for those premises that we had at least a year of consumption data after the rebates were received. The results indicated that the average rebate customer experiences a 16.5% to 17.5% reduction in natural gas consumption over what they were using prior to the furnace replacement. The average rebate customer was using 820 Ccf in 2007. A 17% reduction would save 139 Ccf annually and depending on the commodity price ($.40 to .90) would result in savings to the customer of $55 to $140 annually. Individual results may vary due to personal preferences of the customer, weather, or the commodity price. Other data about the 85 customers that received rebates during the second program year include:

- 81 were homeowners, 3 landlords, and 1 commercial property;
- only one boiler rebate was issued;
- 42 rebates issued in the Northeast District, 27 in the Southeast, & 16 in the West; and

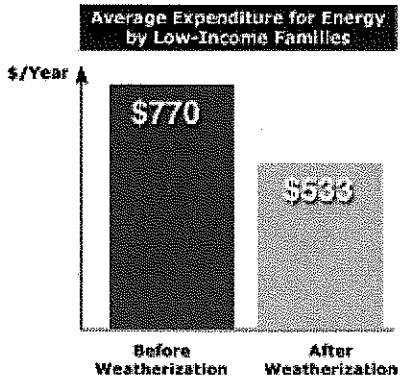
- the AFUE rating for old furnaces was 69.3 while the replacement furnaces had an AFUE rating of 93.2 for a 34.4% efficiency gain.

Even with increased production the rebate program still has a significant balance. For year three, the Collaborative has agreed to add rebates for water heaters ($50 for tank and $200 for tankless) and programmable thermostats ($25). Combined with a media campaign and increased outreach many more customers should be able to enjoy increased energy efficiency in their homes.

In summary, High Efficiency Space Heating Rebates have provided significant energy savings to the participants. With the expansion of the rebates and greater outreach we hope to have even better results after our third program year.

The *Low-Income Home Weatherization Program* experienced the greatest growth in production (57 vs. 12), as well as, expenditures during the second year of the program. A nearly eight fold increase in spending and a 4.75 increase in the number of homes weatherized has resulted in the program achieving a production capacity equal to the funds available and the ability of the local Community Action Agencies (CAAs) to complete the weatherization projects.

Since Atmos is not provided the customer specific information for the Weatherization clients, we consulted the U.S. Department of Energy website to determine energy savings for Weatherization clients. According to a 2002 study conducted for the U.S. Department of Energy, the average expenditure for energy by low-income families is reduced by over 30% (see chart). For natural gas customers this number could vary significant depending on the price of the commodity during any given year.



(http://apps1.eere.energy.gov/weatherization/reducing.cfm)

Although the precise savings for our customers may not be able to be calculated, this national effort with over three decades of results is widely recognized as an effective program for reducing energy consumption and bills for our low-income families. The massive increase in Federal funding as a result of the stimulus bill passed this past winter by Congress is a testimonial to the effectiveness of this program in not only reducing energy consumption but also making it more affordable for low-income families.

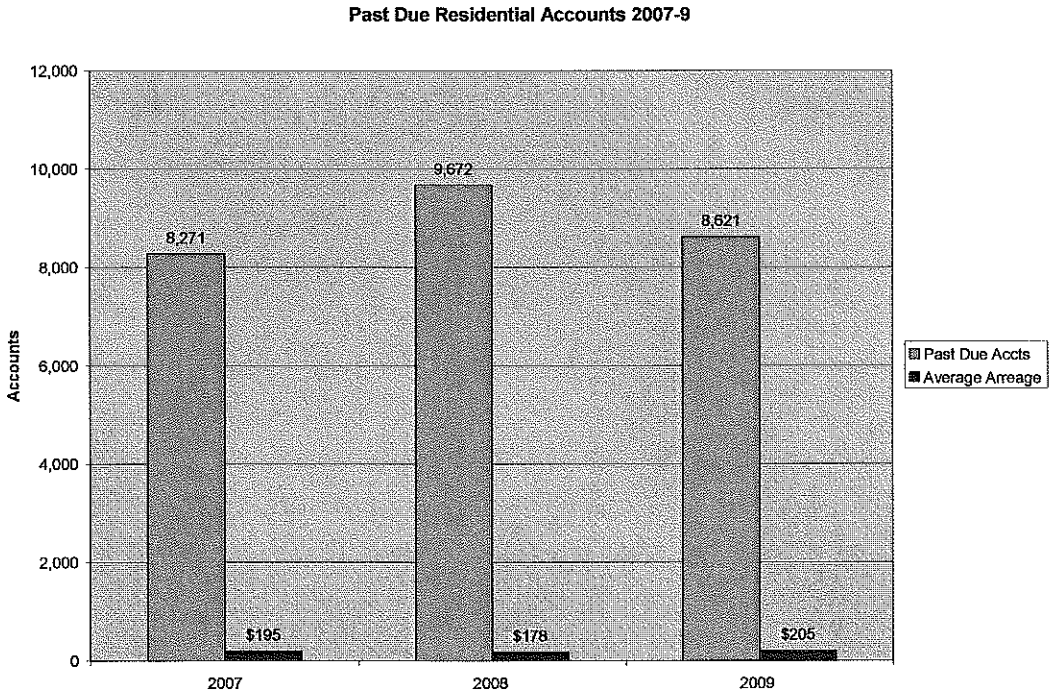
The product of this increase in funding resulted in Atmos as well as most other energy providers in Missouri seeking a one-time variance in their weatherization programs. The variance allows the Missouri Department of Natural Resources (DNR) and their weatherization providers to provide minor home repairs not to exceed $600 per home and to purchase and or provide equipment, staffing, training, administration, space, and outreach. Using utility funds to cover such expenses will allow for the DNR and CAAs to expend these federal funds in a timely and effective manner. The variance expires on June 30,2010. The third year allocation for this program is $102,410 and, when combined with the carry-over balance from previous years, provides over $140,000 for this component.

While the *Customer Education* component of the Program focused on ramp up in the first year, the second year saw a three fold (9 vs. 3) increase in the number of presentations made to elementary students (4^{th} – 6^{th} grades). A total of 930 students heard the presentation this program year. Elementary schools in Schuyler, Butler, and Cape Girardeau counties were served. At least one school in each of our rate districts were served this year. Expenditures more than doubled over the first program year; however there remains a significant carryover. The third year allocation is $5,000. Outreach to schools throughout our service areas will continue and hopefully even more programs can be delivered during the third year of the program.

3. Other Matrices

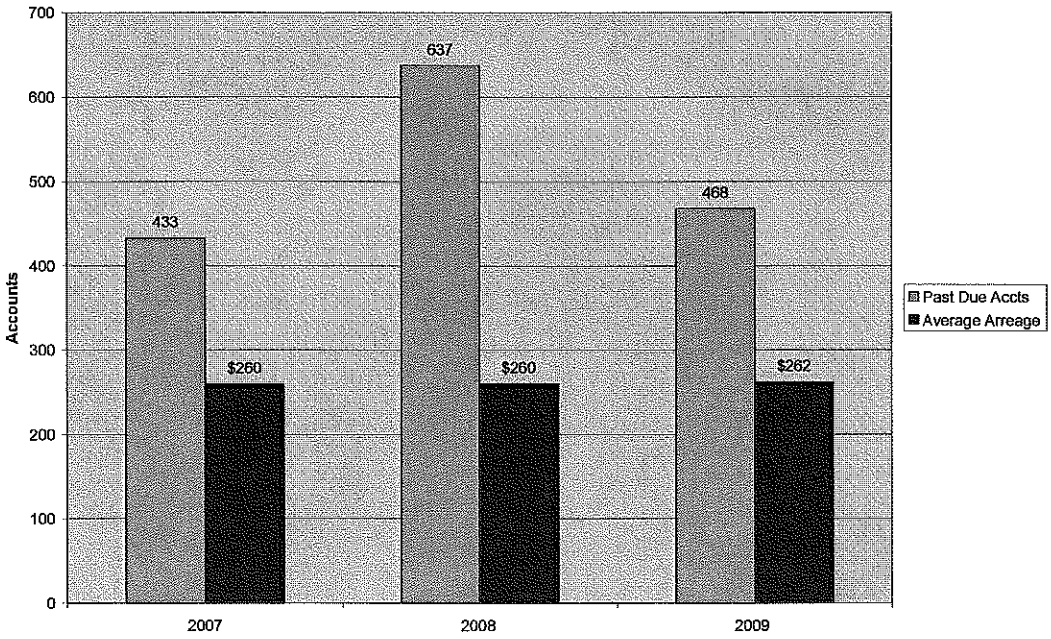
Several other matrices were examined as a part of this report, including late payments (past due accounts), arrears, and disconnects/reconnects. The following charts provide a graphic representation of these data sets for the years ending March 31, 2007 – 2009. Where possible, data have been separated by customer class (residential and small commercial). The first year represents the results prior to implementation of the straight fixed variable rate design for our residential and small

commercial customers, while 2008 and 2009 are the results subsequent to rate design implementation.

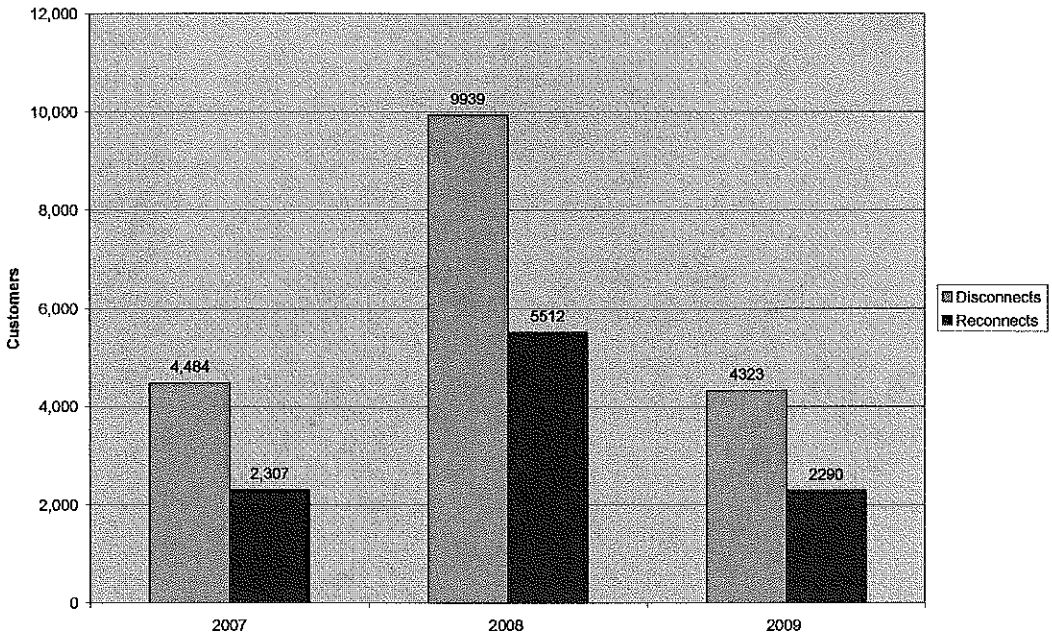


Past due accounts for residential and small commercial customers spiked in 2008 while the average arrear either dropped or remained constant. In 2009 past due accounts dropped back to 2007 levels and arrears rose somewhat.

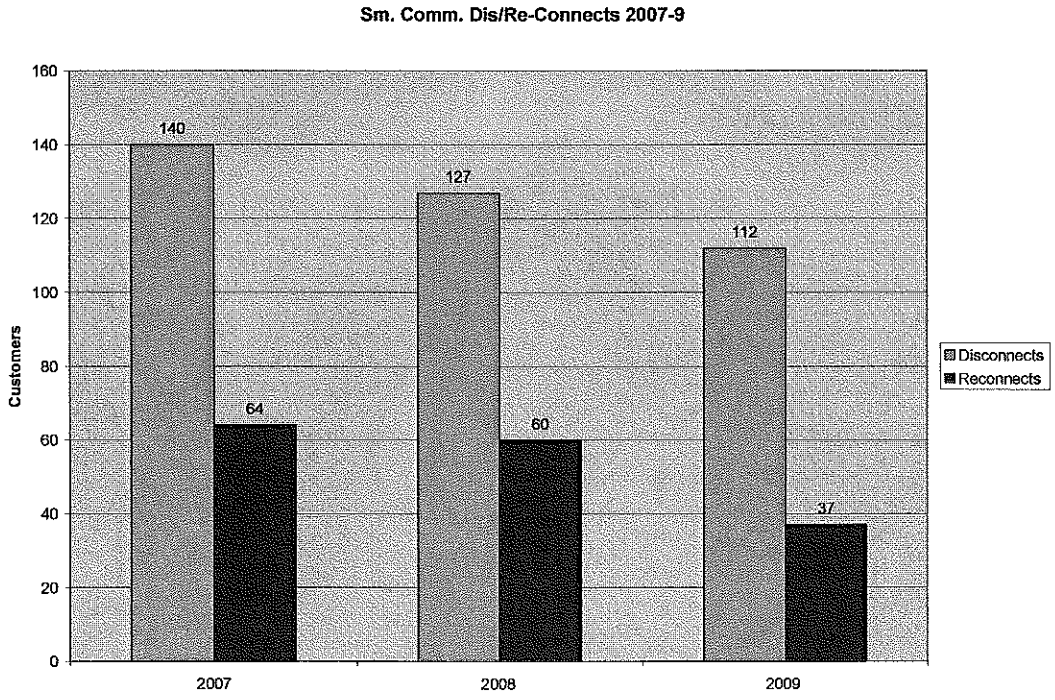
Small Commercial Accounts Past Due 2007-9



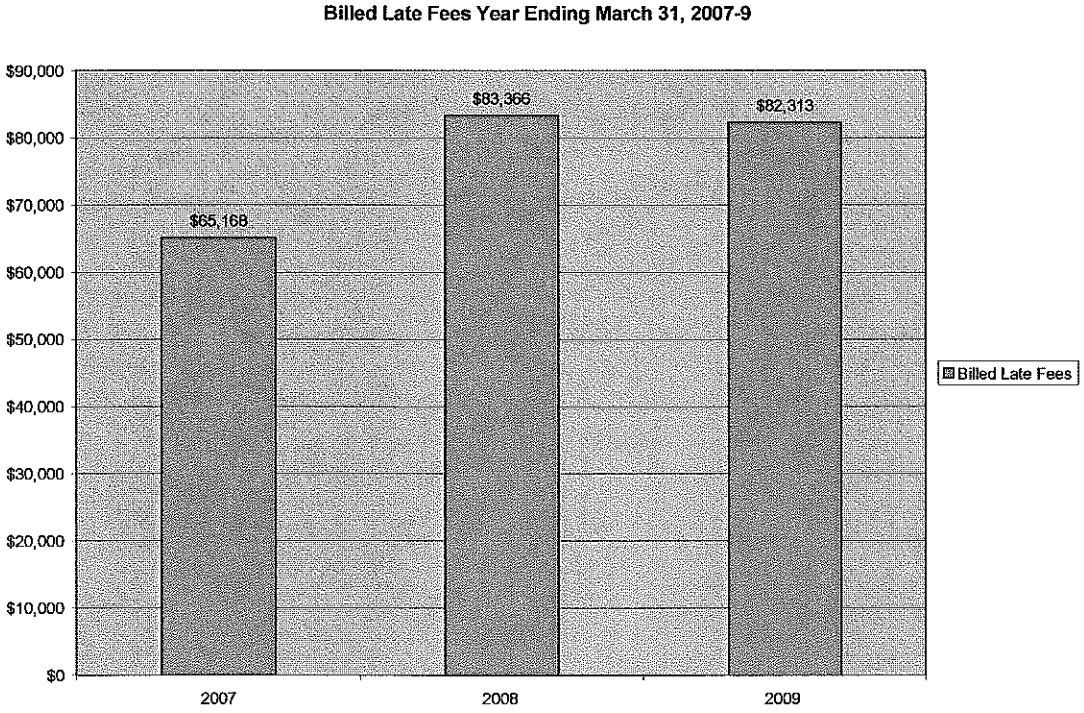
Residential Dis/Re-Connects 2007-9



While residential disconnects/reconnects peaked in 2008 and dropped back below 2007 levels in 2009, the percentage reconnected actually increased over the 2007 rate. For our small commercial customers there has been a steady decline in disconnects.



Billed late fees are indicative of late payment activity. Billed late fees increased nearly 28% over 2007 levels in 2008 and dropped back slightly in 2009.



None of these charts should be considered as supporting or rejecting straight fixed variable rate design. Each of these measures are more directly impacted by the commodity price, weather, the economy and how aggressively the Company pursues collections. For instance, commodity price run up in the summer of 2008 led to significantly higher gas costs during the winter heating season (November 2008 – March 2009). The winter was slightly colder than normal. And, on top of this, the economy begins entering the worse recession since the Great Depression during this same period. This situation should have resulted in more past due accounts, higher arrears, fewer reconnects, and more late payments. The charts do not indicate this. In fact, only the average arrear amount for residential customers increased between 2008 and 2009. When only 20% (even less in the winter months) of a customer's bill is in a fixed charge it is difficult to imagine a scenario where these measures would be meaningfully impacted by the rate design. It should also be noted that declining customer usage continues in Missouri. Since the implementation of the current rate design, average residential customer usage (on a weather-normalized basis) has declined almost 1.6% (60.13 Mcf vs. 59.15 Mcf).

4. Implementation of the Fixed Delivery Charge Rate Design

As noted in the first report, two primary concerns existed concerning the implementation of the fixed delivery charge rate design – customer complaints and large numbers of customers leaving the system. Neither concern materialized, as noted in the first report and remains so as of this date. Complaints concerning the rate design have not been recorded with the call center or local office personnel, beyond the handful noted in the first report. The following table provides the active residential customers as of April 2005 thru April 2009. Since rate design implementation the rate of attrition has actually decreased compared with the attrition that was being experienced in the year prior to the new rate design taking affect. It can reasonably be concluded that the initial concerns have not come to fruition.

Residential Customers - Active April 2005 thru 2009

Active Accounts	Apr-05	Apr-06	Apr-07	Apr-08	Apr-09
Residential	47,921	46,959	46,492	45,783	45,352
Change		962	467	709	431
%age Change		2.0%	1.0%	1.5%	0.9%

5. Conclusion

With another year of experience and better data, it is even more apparent that the new rate design continues to smooth customer bills during the winter and provide the framework for a comprehensive and effective Energy Efficiency & Conservation Program. With the input of Collaborative members, the Energy Efficiency & Conservation Program continues to be refined and improved. Customer complaints and residential attrition have not materialized, but the alignment of customers' interests in more stable energy bills and the company's interest in stable revenues continues.

Dated: December 1, 2009

SCHEDULE MAM-2

Atmos Energy Corporation
Missouri Jurisdiction
Rate Design

	Residential	SGS	MGS	LGS/I&T
NEMO - Current				
Monthly Customer Charge	$ 21.78	$ 21.78	$ 79.27	$ 369.91
Volumetric Charge/Mcf	$ -	$ -	$ 1.1954	$ 0.6879
NEMO - Proposed				
Monthly Customer Charge	$ 33.23	$ 51.65	$ 100.00	$ 500.00
Volumetric Charge/Mcf	$ -	$ -	$ 1.3811	$ 1.2405
NEMO - % Change				
Monthly Customer Charge	53%	137%	26%	35%
Volumetric Charge/Mcf			16%	80%
ROR @ Proposed Rates	9.3%	9.1%	8.5%	8.0%
SEMO - Current				
Monthly Customer Charge	$ 14.14	$ 14.14	$ 76.20	$ 355.58
Volumetric Charge/Mcf	$ -	$ -	$ 1.2395	$ 0.9667
SEMO - Proposed				
Monthly Customer Charge	$ 21.27	$ 33.38	$ 100.00	$ 500.00
Volumetric Charge/Mcf	$ -	$ -	$ 0.9634	$ 0.8591
SEMO - % Change				
Monthly Customer Charge	50%	136%	31%	41%
Volumetric Charge/Mcf			-22%	-11%
ROR @ Proposed Rates	8.9%	9.0%	13.4%	9.3%
WEMO - Current				
Monthly Customer Charge	$ 19.63	$ 19.63	$ 75.76	$ 353.54
Volumetric Charge/Mcf	$ -	$ -	$ 1.5712	$ 1.0564
WEMO - Proposed				
Monthly Customer Charge	$ 29.99	$ 46.89	$ 100.00	$ 500.00
Volumetric Charge/Mcf	$ -	$ -	$ 1.4103	$ 1.2966
WEMO - % Change				
Monthly Customer Charge	53%	139%	32%	41%
Volumetric Charge/Mcf			-10%	23%
ROR @ Proposed Rates	8.8%	10.3%	10.1%	7.2%

SCHEDULE MAM-3 HC

Gas Transportation Agreement
Between Atmos Energy Corporation
and
Noranda Aluminum, Inc.

(HIGHLY CONFIDENTIAL)

(Filed Under Seal)

SCHEDULE MAM-4 HC

Gas Transportation Agreement
Between Atmos Energy Corporation
and
General Mills

(HIGHLY CONFIDENTIAL)

(Filed Under Seal)

SCHEDULE MAM-5

American Gas Association

Fact Sheet
July 2009

Decoupling and Natural Gas Utilities

Rethinking Rate Structures to Promote Energy Efficiency

America is facing a dual challenge – meeting ever-increasing demands for energy, while at the same time making dramatic reductions in greenhouse gas emissions. In this new era, traditional rate structures have become a roadblock that discourages natural gas utilities from promoting energy efficiency and conservation.

What Customers Pay for Natural Gas

The monthly natural gas bill received at a home or business contains two types of charges: the cost of the natural gas used by the customer during the previous month and the delivery and service fees that reflect the utility's costs of delivering natural gas by pipeline to customers.

- The first charge, which usually represents about 70 percent of the bill for an average home, is strictly a "pass along" for the actual cost of the gas. By law, natural gas utilities are not allowed to mark up the cost of the natural gas they purchase for delivery to consumers. What they pay for natural gas is what they charge customers.

- The second charge generates the revenue utilities need to run their business. Utility operations include: operating and maintaining the pipelines, providing customer service, paying employees and providing a reasonable return on investment for shareholders. State government regulatory authorities must approve all the rates that utilities can charge.

Traditional Rate Structures Discourage Conservation

Volumetric rates actually penalize utilities if customers use energy more efficiently.

Less gas flowing through the pipes means less revenue – so a utility that aggressively promoted conservation efforts would likely lose money

For utilities, the costs for delivering natural gas are relatively fixed, regardless of how much natural gas customers actually use. This should make utilities natural supporters of energy conservation.

However, the structures and formulas that have been used to set delivery service rates for the past 100 years are based on the amount of natural gas that flows through the pipes.

When setting delivery rates, regulators look at the volume of gas sold and the costs incurred by the utility for providing service during a "test year" (usually the previous year, with adjustments for abnormal weather or economic patterns). Rates are then set at a level sufficient to allow the utility to recover delivery costs, plus a modest return on investment for shareholders. That total amount (often called the revenue requirement), is then divided by the volume of natural gas used during the test year to come up with a per-unit delivery rate, which, when added to the per-unit "pass-along" gas charge, is what customers pay.

The problem with this rate structure of fixed delivery and service fees "coupled" to the gas usage of customers is that utilities have a disincentive to support conservation and energy efficiency.

Decoupling Encourages Conservation Programs

Benefits customers, utilities and the environment

Recognizing this problem, many states during the past 20 years have moved to "decouple" these service rates from the volume of natural gas delivered.

Under "decoupled" rate processes, the delivery service fee is initially set in the usual way. If the volume of gas delivered at the end of the year is not the same as the volume of gas on which the delivery service fee was set, a "true-up" mechanism goes into effect. This minor rate adjustment will be either a small customer surcharge or a small customer rebate. In either case, the actual cost for delivery service will be the same as it would have been under traditional rate design.

Decoupling allows natural gas utilities to encourage conservation and efficiency measures that reduce overall energy use – benefiting the environment and reducing customers' monthly bills

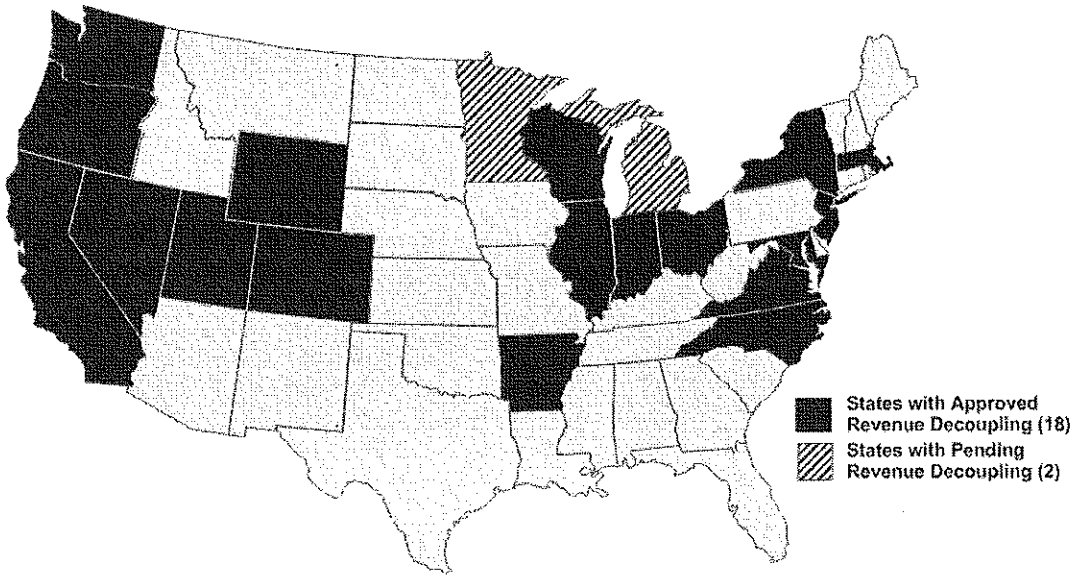
Decoupling the utility's fixed delivery expenses from the variable usage of customers frees natural gas utilities – which are best placed to reach their customers with the message – to promote efficiency and conservation measures without placing themselves in financial jeopardy. Customers who practice energy conservation in their homes benefit by not paying for gas they do not use.

Decoupling Success Stories

- California began natural gas decoupling in 1978 and electric decoupling in 1982. Since 1970, California has reduced its per person residential energy consumption by 19 percent, while residential energy use per person for the United States overall increased by 9 percent.
- In Oregon, which adopted natural gas decoupling in 2002, a study by the Oregon Public Utilities Commission found that customer bills remained stable, the utility improved its ability to recover fixed costs, and the utility's advertising focus shifted from marketing to conservation. The state now has the highest share of high-efficiency furnaces in the nation (as a percentage of new furnace sales).
- In 2008, 9 percent of Questar Gas' Utah customers participated in the company's ThermWise energy efficiency program that produced a $30 million net present value. In addition to energy savings, efforts related to the program resulted in noticeable improvements in customer service and satisfaction.

Natural Gas Revenue Decoupling

As of July 2009

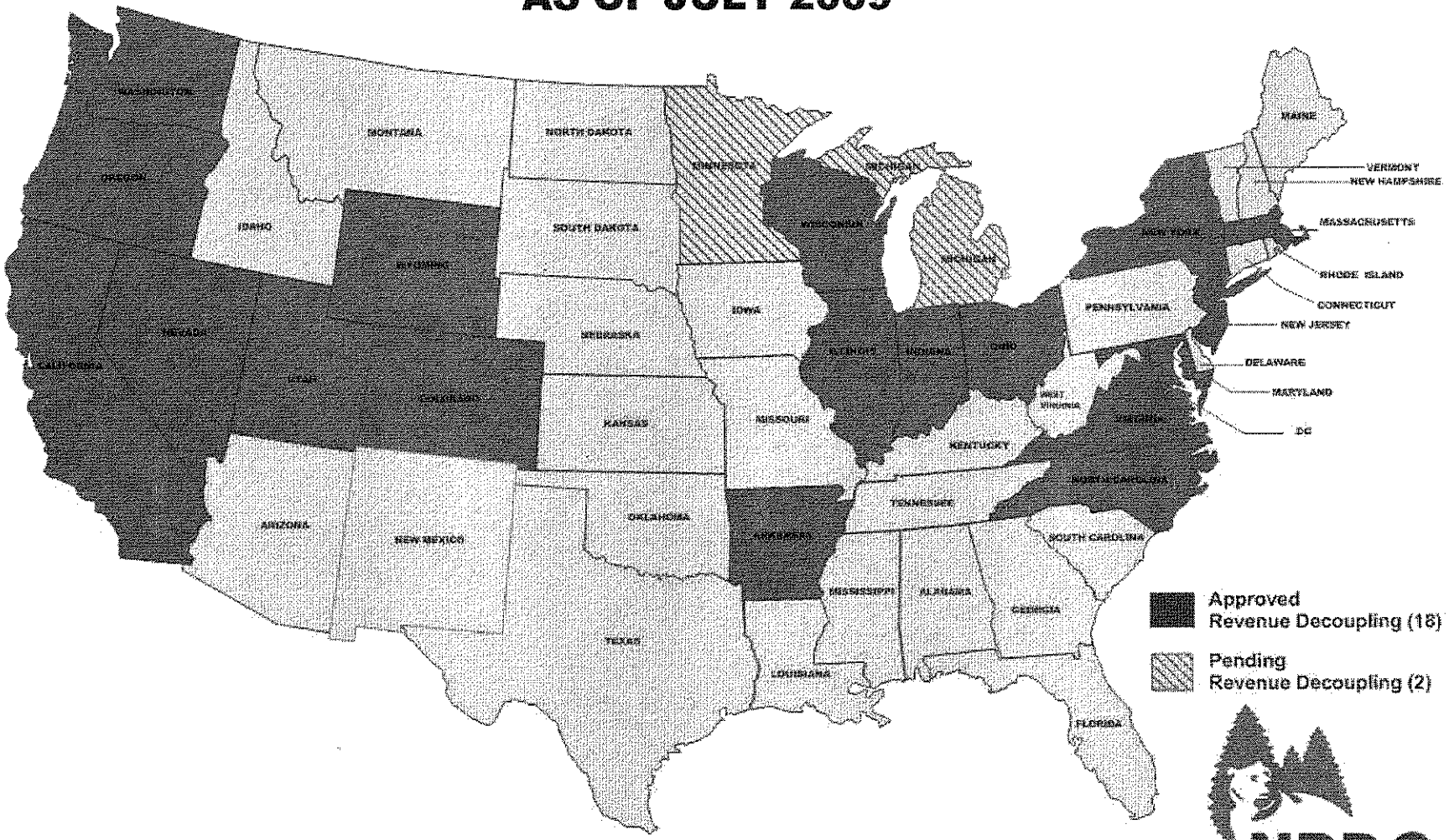


31 natural gas utilities are providing service to 20 million residential customers under decoupled rates. There are 65 million residential customers in the US.

SCHEDULE MAM-6

NATURAL GAS REVENUE DECOUPLING

AS OF JULY 2009



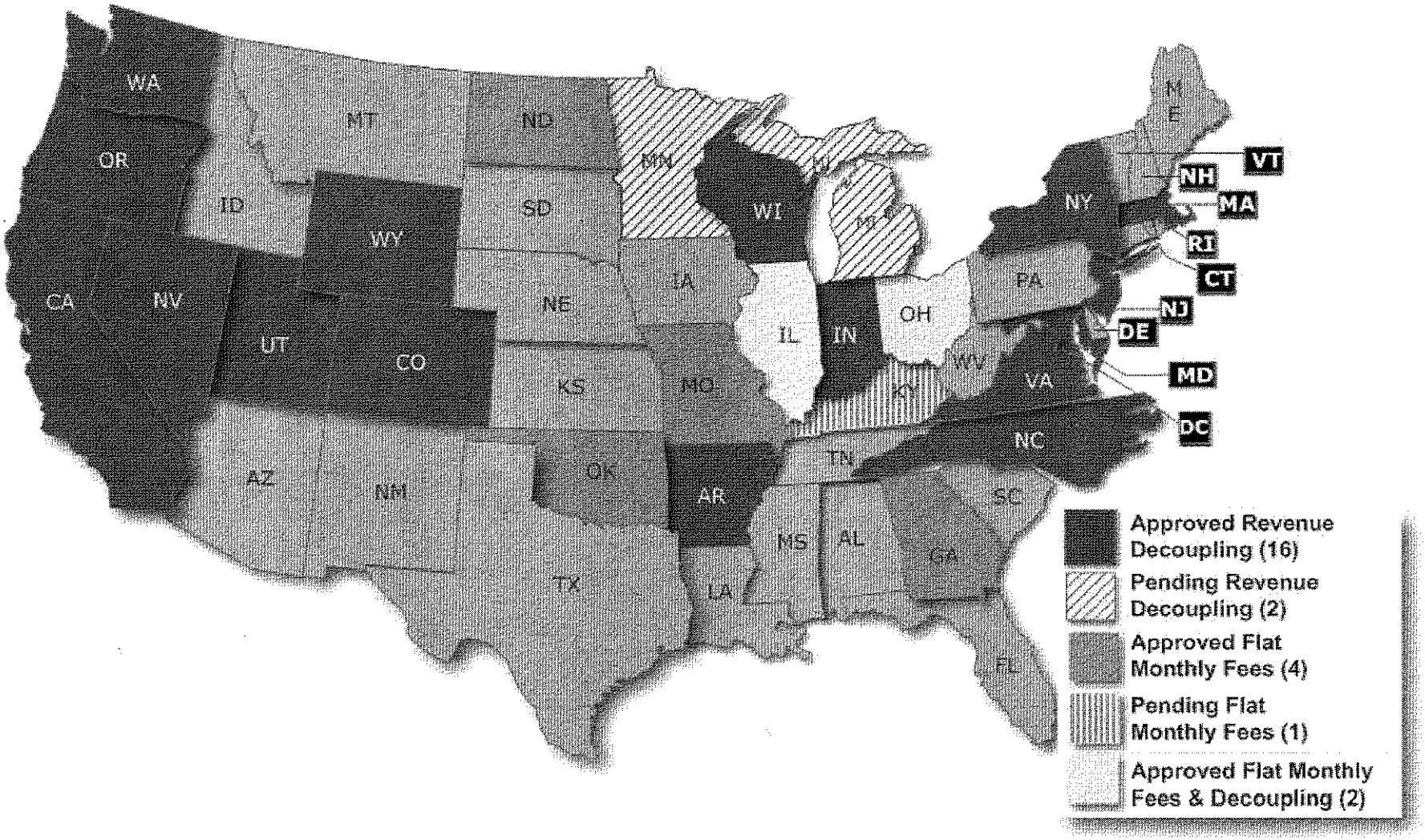
NRDC

THE EARTH'S BEST DEFENSE

AGA
American Gas Association

SCHEDULE MAM-7

STATES WITH DECOUPLING AND FLAT MONTHLY FEES
AS OF JULY 2009



AGA
American Gas Association

SCHEDULE MAM-8

American Gas Association

NATURAL GAS Rate Round-Up

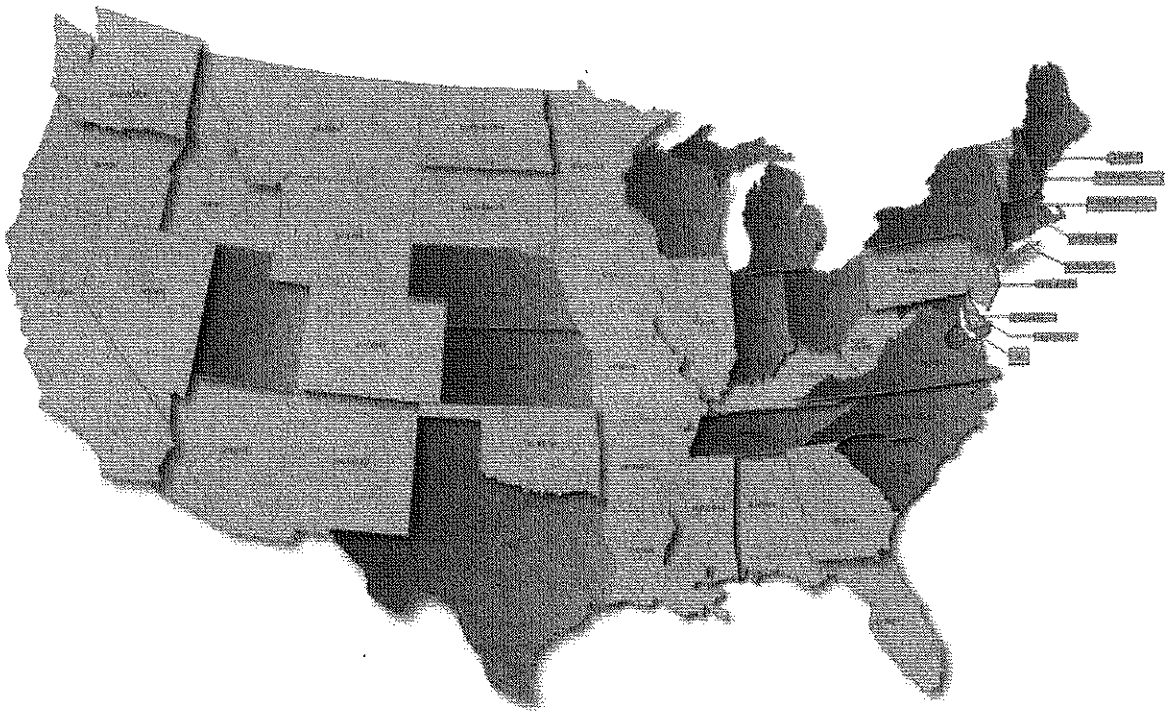
A Periodic Update on Innovative Rate Designs

December 2008

BAD DEBT COST RECOVERY 2008 UPDATE

Natural gas utilities provide service to their customers on a credit basis. After customers receive service and consume natural gas, they pay their bills to the utility. However, each month, some customers do not pay all or part of their natural gas bills, and these outstanding amounts due become utility bad debt. Higher-than-forecast bad debts usually arise from significant increases in wholesale gas costs, which are outside of the utility's control. Unless mitigated by a regulatory authority, these increased expenses reduce the utility's ability to operate in a financially stable way. This AGA Rate Round-Up describes tariff cost adjustment mechanisms that help utilities recover these volatile and uncontrollable costs. Currently, 44 natural gas utilities in 19 states, the District of Columbia, and Canada have implemented innovative bad debt cost recovery mechanisms and are recovering all or part of related costs in adjustment clauses known as rate trackers or deferral accounts.

STATES WITH INNOVATIVE BAD DEBT COST RECOVERY MECHANISMS



PROBLEMS WITH TRADITIONAL METHODS OF BAD DEBT COST RECOVERY

Bad debt is a cost for any business that extends credit to customers. Utilities are allowed to recover bad debt expenses in regulated rates. Natural gas utility bad debt has two components: the commodity portion, which is the largest, and the distribution service portion. Even though the commodity cost is a large portion of bad debt, in traditional rate design bad debt cost is recovered as a fixed expense in base rates (that part of rates that excludes most gas commodity costs and rate trackers). The problem with this method is that in recent years, as natural gas commodity costs have become volatile, bad debts have become a fluctuating rather than a fixed expense. This volatility has made it extremely difficult for utilities to forecast and to recover their costs. Under traditional cost-of-service-based ratemaking, costs that are known and controllable by the utility are recovered in base rates, while costs that are unpredictable and uncontrollable, such as natural gas commodity costs, are recovered in trackers and adjustment clauses. As natural gas costs have increased unpredictably, more customers have defaulted on their debts to utilities. And as natural gas prices have increased, the size of the bad debts has increased. The end result, more customers in default on debts of greater size, has led utilities and regulators to take a fresh approach to bad debt cost recovery.

Timely and certain cost recovery of prudently incurred costs is of utmost importance to the financial stability of natural gas utilities. Because traditional ratemaking allows recovery of a fixed amount of bad debt expense only following approval in a rate case, there is uncertainty in the amount of recovery that will occur due to fluctuating and volatile expense levels. Credit agencies frown on companies – including utilities - with higher levels of uncertainly in the recovery of their costs and therefore assign a lower credit rating to such utilities. That ultimately translates into higher rates for customers. The only alternative within traditional ratemaking is to file a rate case to adjust costs each year, which is costly and also leads to higher rates for customers.

The negative impact that widely varying bad debt costs has on the ability of utilities to recover their prudently incurred costs is now widely understood, and regulatory methods that allow utilities to recover their bad debt costs outside of base rates are becoming more routine. Innovative bad debt cost recovery mechanisms that track and pass through to customers the actual bad debt costs experienced by the utility help utilities to recover their prudently incurred costs and to maintain their financial stability. **Regulators in 19 states, DC and Canada now allow a gas utility to use expense trackers or accounting deferrals to recover bad debt costs in a timely manner.** These rate mechanisms reduce the costs associated with filing rate cases, while reducing the regulatory lag associated with recovery of bad debt expenses.

UTILITIES WITH INNOVATIVE BAD DEBT COST RECOVERY MECHANISMS

1. CT – Connecticut Natural Gas
2. CT - Southern Connecticut Gas
3. CT – Yankee Gas Services
4. DC – Washington Gas
5. IN – Vectren So. Indiana Gas & Elec.
6. KS – Black Hills
7. KS - Atmos Energy
8. MA – Bay State Gas
9. MA – NSTAR Gas
10. MA – KeySpan Boston Gas
11. MA – KeySpan Colonial Gas
12. MD – Baltimore Gas and Electric
13. MD – Washington Gas
14. ME – Northern Utilities
15. MI – Michigan Consolidated Gas
16. NC – Piedmont Natural Gas
17. NE – Black Hills
18. NH – Northern Utilities
19. NH – KeySpan EnergyNorth
20. NY – Central Hudson Gas and Electric
21. NY - Consolidated Edison
22. NY - KeySpan – New York City
23. NY - KeySpan - Long Island
24. NY - National Fuel Gas Distribution
25. NY – National Grid
26. NY – New York State Elec. and Gas
27. NY - Orange & Rockland Utilities
28. OH – Columbia Gas Ohio
29. OH – Dominion East Ohio Gas
30. OH – Eastern Natural Gas
31. OH – Pike Natural Gas
32. OH – Vectren Energy Ohio
33. ON – Union Gas
34. RI - National Grid
35. SC - Piedmont Natural Gas
36. TN – Atmos Energy
37. TN - Chattanooga Gas
38. TN - Piedmont Natural Gas
39. TX - Atmos Energy
40. TX - Texas Gas Service
41. UT – Questar Gas
42. VA - Atmos Energy
43. VA – Washington Gas
44. WI - Wisconsin Electric – Gas

INNOVATIVE BAD DEBT RATE DESIGN SOLUTIONS

The most frequently used innovative method of recovering bad debt costs outside of the traditional ratemaking framework is to pull the commodity portion of bad debt expense out of the base rate mechanism and allow this component to be recovered in the purchased gas adjustment (PGA) component of the customer bill. Several rate design options accomplish this task and there are few substantive differences among the approaches, other than timing of the cost recovery. Trackers and surcharges recover costs in the time period in which they are incurred, while deferral accounts delay the recovery of bad debts, and usually, carrying costs, until a future period. All of these mechanisms are widely used and accepted throughout the utility and the regulatory communities.

Tracker – A rate tracker is an example of an adjustment clause, a regulatory mechanism that allows a utility's rates to fluctuate in response to changes in operating costs or conditions, as they occur. Adjustment clauses have been in use since World War I, when the electric industry introduced them due to significant increases in the price of coal. Trackers may be automatic, actuated without the need for a formal rate hearing, or they may require additional regulatory review before they go into effect. Trackers allow the utility to adjust its tariff to facilitate the timely recovery of the bad debt expense.

This mechanism authorizes utilities to recover all or a portion of their bad debts not already included in base rates, and to pass along these expenses without filing for a new rate case. A bad debt tracker is a type of rate adjustment mechanism that recovers costs that are usually

outside of the control of the utility, such as taxes and the cost of gas. Similar to gas cost adjustment mechanisms and gross receipts recovery charges, bad debt trackers are tariff provisions that are implemented without the need for a rate case. Both higher-than-forecast and lower-than-forecast bad debt expenses are tracked in a special account and subsequently recovered in the rates of all customers. In Tennessee, for example, the gas commodity portion of the bad debt is removed from base rates, while the gas distribution portion of bad debt cost remains in the base rate charge. The tracking mechanism recovers the commodity portion of bad debt from all customers.

Surcharge to Rates – Very similar to the tracker is the surcharge to rates. A rate surcharge is a temporary adjustment to the customer bill that raises rates for a limited time by a fixed amount. Unlike the tracker, which allows the utility to recover ALL of the bad debt expenses, a surcharge limits the total amount of cost recovery. Usually this limit is expressed as a percentage of the gas commodity price. For example, Baltimore Gas and Electric Co. and Washington Gas in Maryland recover the commodity portion of the bad debt as an adder to the gas commodity price. The bad debt adder is based on the test year revenues in the most recent base rate case and ends up being a percentage of the gas commodity price.

Deferral Account - Another option is the deferred accounting alternative. Using this approach, the utility treats bad debt expenses that are not included in the utility's existing rates in a segregated manner, thereby establishing a special deferred account. Generally, state authorities require a determination that the costs have been incurred prudently and have been accounted for properly. Often these costs are deferred until the next rate case, at which time the costs are then amortized, recovered in rates, and the account balances are reduced or eliminated. In many cases, the assets in the deferral accounts accrue interest, and the interest is also amortized and recovered later in rates. The regulator may place limits on the amount of bad debt expense that may be accrued, and on the time period over which the amortization may occur, and may require a showing of prudence in the incurring of specific costs. Also, the deferral rate may be trued-up annually to balance the collected bad debt costs with the costs that were actually deferred.

Hardship Only – In some states only bad debts from low-income and financially depressed customers are allowed recovery outside of the traditional method. In Connecticut, natural gas utilities are allowed to flow through the PGA account only bad debt costs that are associated with customers who have a demonstrated hardship situation. All other bad debt expenses are still recovered in base rates.

Collection Costs – Ohio and New York utilities purchase the accounts receivable of suppliers participating in choice programs. Because of this, some bad debt costs associated with choice program services and with energy service companies (ESCOS), including carrying charges, are added to the bad debt tracker. These bad debt costs are then recovered from all customers.

Distribution Bad Debt Costs Also Included – While all innovative bad debt cost recovery mechanisms recover the commodity portion of the bad debt cost outside of base rates, in Ohio the mechanisms allow both the gas commodity and the gas distribution bad debt costs to be removed from base rates and tracked with the bad debt automatic adjustment mechanism.

CONCLUSIONS

A growing number of states allow utilities to recover the costs incurred between rate cases of variable bad debt expenses. In times of high commodity prices, cost trackers, rate surcharges, and deferral accounts all stabilize cost recovery by closely matching actual expenses to recovered expenses. The utility foregoes over-recovery of this expense in years when bad debts are lower than the amount in base rates and ratepayers avoid overpaying for the bad debt portion of their service. As with most other innovative rate designs, there is no connection between the use of these mechanisms and changes to the utilities' return on equity because recovery of costs in the time period in which they are incurred does not change the utility's cost of capital or the utility's level of risk. This innovative method of cost recovery is becoming more main stream because it is fair to both natural gas utilities and their customers.

RESOURCES: COMPANIES, RATE ORDERS, WEBSITES, CONTACTS, ETC.

- **Atmos Energy -** Tennessee – Bad Debt Tracker - Gas commodity portion of bad debt is recovered through the tracker mechanism; Tennessee Filing For Declaratory Ruling - Website: http://www2.state.tn.us/tra/dockets/0300209.htm. Contact: Pat Childers @ 615-771-8332
- **Bay State (NiSource)** – Massachusetts – DPU #97-97; Contact: Joe Ferro @ 508-836-7273
- **Chattanooga Gas (AGL Resources)** – Tennessee – Gas commodity portion of bad debt is recovered through the tracker mechanism; Tennessee Filing For Declaratory Ruling - Website: http://www2.state.tn.us/tra/dockets/0300209.htm
- **Columbia of Ohio (NiSource)** - Ohio - All bad debt expenses recovered through the adjustment mechanism; Ohio PUC Case No. 03-1127-GA-UNC. Contact: Suzanne Surface @ 614-460-5966
- **Dominion East Ohio** – Ohio - All bad debt expenses recovered through the adjustment mechanism, including the accounts receivables of suppliers participating in choice programs; Ohio PUC Case No. 03-1127-GA-UNC. Contact: Jeff Murphy @ 216-736-6376
- **KeySpan New England** – Massachusetts and New Hampshire – Contact: Leo Silvestrini @ 781-466-5411
- **Nashville Gas (Piedmont) -** Tennessee – Gas commodity portion of bad debt is recovered through the tracker mechanism; Tennessee Filing For Declaratory Ruling - Website: http://www2.state.tn.us/tra/dockets/0300209.htm. Contact: Bill Morris @ 704-364-3120
- **New England Gas (Southern Union)** – Rhode Island – Website:http://www.negasco.com/stuff/contentmgr/files/70e595624404c5e4ec1f534a7e93178b/images/ritariff_11_1_03rev.pdf. Contact: Peter Czekanski @ 401-574-2309
- **Questar** – Utah and Wyoming – Utah Case No. UT 01-057-14; Wyoming Case No. WY 30010-GP-02-65. Contact Barrie McKay @ 801-324-5491
- **Vectren – Ohio** - All bad debt expenses recovered through the adjustment mechanism, including the accounts receivables of suppliers participating in choice programs; Ohio PUC Case No. 03-1127-GA-UNC

- **Washington Gas Light** – DC, Maryland, and Virginia – Contact: Jim Wagner @ 703-750-5261

ADDITIONAL INFORMATION

If you would like more information about a particular tariff or would like to speak to another AGA member regarding the details of the program, please contact: Cynthia Marple, AGA director of rates and regulatory affairs, cmarple@aga.org or 202-824-7228.

The 2004 AGA report, *Successful Strategies for Bad Debt Cost Recovery*, can be found on the AGA website at:
http://www.aga.org/Legislative/RatesRegulatoryIssues/ratesregpolicy/rateroundup/RateRoundUpStrategiesforSuccessfulRecovery.htm