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Witness: Rebecca Buchanan
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Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2008-0364
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: GR-2008-0364

**DIRECT TESTIMONY
OF
REBECCA BUCHANAN
ON BEHALF OF
ATMOS ENERGY CORPORATION**

Franklin, Tennessee
March, 2010

*** [REDACTED] *** Designates "Highly Confidential" Information.
Certain Schedules Attached To This Testimony Designated "(HC)"
Also Contain Highly Confidential Information.
All Such Information Should Be Treated Confidentially
Pursuant To 4 CSR 240-2.135.

NON-PROPRIETARY

**DIRECT TESTIMONY OF
REBECCA M. BUCHANAN
ATMOS ENERGY CORPORATION**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Rebecca M. Buchanan. My business address is 377 Riverside Dr., Suite
3 201, Franklin TN, 37064.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Atmos Energy Corporation as Manager, Regional Gas Supply—East
6 Region. In this proceeding, I am testifying on behalf of Atmos Energy Corporation
7 ("Atmos" or "Company") Kentucky/Mid States Division. This division includes the
8 areas served by Atmos in Missouri.

9 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL**
10 **EXPERIENCE?**

11 A. I graduated with honors from the University of Oklahoma with a Bachelor of Business
12 Administration Degree, majoring in Accounting. I am a Certified Public Accountant in
13 the state of Oklahoma and a member of the Tennessee Society of Certified Public
14 Accountants.

15 My professional experience includes six years of corporate accounting outside the gas
16 industry (1984 – 1990), in which I held the positions of Staff Accountant, Senior
17 Accountant, Payroll Manager and Regional Accounting Manager. In 1991, I accepted the
18 position of Analyst/Regulatory Affairs at United Cities Gas Company. In 1995, I was

1 promoted to Senior Analyst/Regulatory Affairs. With the 1997 merger of United Cities
2 Gas and Atmos Energy Corporation, I transferred to the Atmos Rates Department where I
3 was a Senior Rates Analyst until my promotion to Manager of Regional Gas Supply in
4 August 2007.

5 **Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGER, REGIONAL GAS**
6 **SUPPLY?**

7 A. I am responsible for the management of Atmos' East Region Gas Supply Department.
8 The East Region Gas Supply Department handles the development, implementation and
9 direction of gas supply procurement and reporting for the Kentucky/Mid-States Division
10 of the Company. The Kentucky/Mid-States Division includes the states of Missouri,
11 Georgia, Illinois, Iowa, Kentucky, Tennessee, and Virginia. A key function of the Gas
12 Supply Department is to assure that our customers receive gas supply that is both reliable
13 and economical.

14 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE**
15 **MISSOURI PUBLIC SERVICE COMMISSION OR ANY OTHER**
16 **REGULATORY BODY?**

17 A. Yes. I have previously testified before the Missouri Public Service Commission
18 ("Commission") in the 2006 Atmos Rate Case, Case No. GR-2006-0387. I have filed
19 testimony with the utility regulatory agencies in the states of Colorado (Docket No. 00S-
20 668G), Kansas (Docket No. 181,940-U and Docket No. 191,990-U), Kentucky (Case No.
21 99-070), Georgia (Docket No. 27168-U and Docket No. 29554-U), Illinois (Docket No. 09-
22 0365), Mississippi (Docket No.05-UN-0503), Tennessee (Docket No. 91-01712), and
23 Virginia (Case No. PUE930023 and Case No. PUE950008).

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to support the PGA/ACA filings in Case No. GR-2008-
3 0364 for Atmos' Mid States' division for the 2007-2008 ACA period. In particular, I will
4 discuss the competitive bidding process for gas supplies used during this ACA period,
5 and will briefly respond to the recommendations filed by the Staff ("Staff") of the
6 Missouri Public Service Commission ("Commission") in the Actual Cost Adjustment
7 ("ACA") in Case No. GR-2008-0364. My testimony will demonstrate that:

8 1) the gas costs of the Company during the 2007-2008 ACA period were
9 prudently incurred; and

10 2) the Affiliated Transactions disallowance made by the Staff in this case is
11 unreasonable and should not be adopted by the Commission.

12 **Q. WHAT ACA PERIOD IS INVOLVED IN THIS PROCEEDING?**

13 A. The ACA period in this proceeding is September 1, 2007 to August 31, 2008. It therefore
14 involves principally the winter season of 2007-2008.

15 **DESCRIPTION OF SERVICE AREAS**

16
17 **Q. DESCRIBE THE SYSTEMS INCLUDED IN THIS PROCEEDING.**

18 A. The Atmos systems in Missouri are grouped into three geographic areas: Northeastern,
19 Southeastern and Western. Within each area, Atmos serves customers through one or
20 more operating systems. A description of each follows.

21 **The Northeastern area consists of two operating systems, Kirksville and**
22 **Consolidated Hannibal/Canton/Palmyra/Bowling Green.**

1 ➤ **The Kirksville system** is located in Schuyler, Adair, and Macon counties. There
2 are over 5,800 customers in this service area, of which 4,960 are residential
3 customers. The Company's load requirements are very heat sensitive due to the
4 residential core customer base and, therefore, are very challenging to forecast and
5 manage on a daily basis. The ANR Pipeline provides supply to this system.

6 ➤ **The Hannibal/Canton/Palmyra/Bowling Green system** is located near the
7 Mississippi River in Northeast Missouri. The towns are located in Pike, Marion,
8 Ralls and Lewis Counties. The system serves over 14,000 customers of which
9 approximately 13,000 are residential customers. Panhandle Eastern Pipeline
10 serves this system. For Bowling Green, flowing supplies and IOS (In and Out
11 Storage) are transported on a Firm SCT (Small Customer Transportation)
12 contract. For the other towns, flowing supplies and three pipeline storage
13 contracts are transported on three Firm EFT (Enhanced Firm Transportation)
14 contracts. In addition, a Company-owned propane air plant serves the peaking
15 needs of Hannibal.

16 **The Southeastern area consists of the four operating systems, Piedmont/Arcadia,**
17 **Jackson, SEMO Integrated, and Neelyville/Qulin.**

18 ➤ **The Piedmont/Arcadia system** has 960 customers and is located in Wayne
19 County and Iron County. Mississippi River Transmission ("MRT") is the pipeline
20 that serves this system.

21 ➤ **The Jackson system**, served by Natural Gas Pipeline ("NGPL"), is scattered
22 through Ripley, Stoddard, Scott and Cape Girardeau counties. This system
23 consists of 4,995 customers. Heat sensitivity is a challenge in these areas as well.

1 ➤ **The SEMO Integrated system**, unlike the previously described typical service
2 areas served by a single pipeline, is a much more complex system than those
3 discussed above. Supply is delivered to this area by two pipelines, Texas Eastern
4 Transmission Company (“TETCO”) and Ozark Gas Transmission (“Ozark”,
5 formerly Arkansas Western Pipeline “AWP”). The Southeast Missouri Integrated
6 service area is also “integrated” with the system retained by Arkansas Western
7 Gas Company (“AWG”) to serve the State of Arkansas.

8 The SEMO Integrated system consists of over 35,000 customers, of which 30,750
9 are residential customers. This service area’s load requirements are very heat
10 sensitive due to the residential core customer base and, therefore, are difficult to
11 predict and manage on a daily basis.

12 The Texas Eastern storage (SS-1) is a unique storage service in relation to the
13 Southeast Integrated system. The Ozark firm transportation (FT) and the Texas
14 Eastern firm transportation (CDS- Comprehensive Delivery Service) are
15 integrated and the SS-1 storage is a balancing tool for both pipelines. The three
16 contracts necessary to operate the Southeast Missouri Integrated System at the
17 time of acquisition from Associated Natural Gas (“ANG”) on June 1, 2000 were
18 bifurcated between ANG and Atmos. In addition to Atmos’ system supply for
19 Missouri, transporters’ gas is received and then delivered to points within
20 Missouri and/or at the southern Missouri state line in Dunklin or Pemiscot
21 Counties.

22 ➤ **The Neelyville/Qulin system** serves approximately 600 customers in the towns of
23 Neelyville and Qulin, in Butler County MO. Two interstate pipelines, Natural

1 Gas Pipeline of America ("NGPL") and Texas Eastern Transmission ("TETCO"),
2 serve this system. Supplies delivered at NGPL are provided by Firm
3 Transportation (FT) and Firm No-Notice Storage contracts. Supplies delivered at
4 TETCO are provided under a one-part, Firm Small Customer Transport, inclusive
5 of Storage service. This combination ensures both reliable and reasonably priced
6 supply.

7 **The Western area serves two operating systems, Butler and Rich Hill/Hume.**

8 ➤ **The Butler system** is located in Cass, Bates, Henry, and St. Clair counties. There
9 are 3,700 customers on this system. The majority of the customers are residential.
10 This area is very heat sensitive and the daily load requirements are a challenge to
11 forecast and manage. Panhandle Eastern is the pipeline serving this area.

12 ➤ **The Rich Hill/Hume system** serves approximately 440 customers off Southern
13 Star Central Gas Pipeline, Inc.

14 **Q. PLEASE DESCRIBE THE PROCESS USED BY ATMOS TO SECURE THE GAS**
15 **SUPPLIES FOR THESE SYSTEMS.**

16 **A.** Atmos holds long-term contracts (three to five years minimum) with the various interstate
17 pipelines for natural gas storage and transportation capacity to provide for the firm
18 requirements of our Missouri service areas. Separately, Atmos contracts with suppliers to
19 purchase the natural gas commodity that flows on the pipeline capacity for delivery to our
20 Missouri service areas and for injection into storage. Suppliers are selected through a
21 competitive bid process. Atmos issues Requests for Proposals ("RFP") and suppliers
22 submit confidential bids with their proposed pricing of the gas supply services. The
23 winning bidder, that is, the one that offers the best bid for reliable supply at the least cost,

1 is awarded the supply contract. Typically, supply contracts are for a term of one year, but
2 some are shorter seasonal supply contracts. With regard to the Mississippi River
3 Transmission pipeline ("MRT") capacity serving our Piedmont system customers and the
4 Southern Star Central Gas pipeline ("S.Star") capacity serving our Rich Hill/Hume
5 system customers, Atmos optimizes the value of transportation and storage capacity by
6 obtaining bundled gas supply and asset management services (a.k.a. asset management
7 agreement, "AMA"). The supplier/asset manager provides specialized inventory
8 management skills and has access to wholesale markets and trading activities that the
9 utility does not possess. The value of this service is passed through to the customers as
10 reduced gas costs.

11 Besides the pipeline and supply arrangements used to secure gas supply for the
12 customers, Atmos operates a Company-owned propane air plant that serves the peaking
13 needs of Hannibal. The plant supplements the PEPL capacity for that system.

14 **Q. HAS STAFF BEEN PROVIDED AN OPPORTUNITY TO REVIEW (OR**
15 **PROVIDE INPUT REGARDING) ATMOS' RFP PROCESS?**

16 **A.** Yes. In this case, as well as in Case No. GR-2007-0403, Staff has had twenty-nine (29)
17 months of discovery (issuing 117 Data Requests commencing on October 3, 2007 in the -
18 0403 case, and 116 Data Requests commencing on October 6, 2008 in this matter). Staff
19 and the Company held several conference calls discussing among other things the RFP
20 process. These meetings resulted in improvements to the RFP documentation. For
21 example, Staff asked the Company to document on the RFP evaluation sheets the reasons
22 why some RFP bids are considered non-conforming. The Company agreed with Staff's
23 suggestion.

1 **Q. ARE THE GAS SUPPLY PROCUREMENT PROCEDURES USED BY ATMOS**
2 **FORMALIZED IN ANY MANNER?**

3 A. Yes. Atmos has a Gas Supply & Services Manual ("Manual") which is attached as
4 Attachment No. 1. It fully explains the process used by Atmos to secure the gas supplies
5 for the systems. Atmos provides the gas supply manual to Staff each year in response to
6 Staff's data request in the ACA reviews. In Case No. GR-2007-0403, the manual was
7 provided in response to Staff DR 0066. In Case No. GR-2008-0364, the manual was
8 provided in response to Staff DR 0008.

9 **Q. DOES ATMOS USE A COMPETITIVE BIDDING OR "REQUEST FOR**
10 **PROPOSAL" PROCESS TO SECURE ITS GAS SUPPLIES FOR THESE**
11 **SYSTEMS?**

12 A. Yes. The Request for Proposal Process and RFP Flow Process are well developed and
13 described within the Manual. The processes for maintaining a Supplier List and
14 Qualification Procedure are described on pages 5-7 of the Manual. A "Sample RFP
15 Letter" is contained on pages 8-10 of the Manual. The Bid Evaluation and
16 Documentation Procedure are discussed on pages 11-12 of the Manual.

17 **Q. DOES THE MANUAL SPECIFICALLY ADDRESS THE METHOD OF**
18 **DEALING WITH AN AFFILIATED GAS MARKETER?**

19 A. Yes. The **Affiliated Procedures Section** of the Manual states as follows:

20 **"Purpose:**

21 The purpose of this policy is to detail the requirements for dealing with affiliate operations.

22 **RFP Process:**

23 The Company's RFP process ensures that no preferential treatment is given to an affiliated
24 company.
25

1
2 **General:**

3 The goal is to prevent preferential treatment being given to any marketer, especially an
4 affiliate. It will be each employee's responsibility to treat all marketers the same. A
5 particular marketer may have more experience on a particular pipeline and may be better
6 equipped to ask certain questions. A rule of thumb should be that an employee should
7 feel comfortable giving several marketers the same information. If an employee has
8 concerns over providing certain data to a marketer or to a group of marketers, the
9 employee should go to their Manager. If concern still exists, the employee and the
10 Manager will consult with the Director, Gas Supply and Services.

11
12 **Affiliate Guidelines:**

13 In the event a state has specific guidelines for affiliated transactions, it is the Gas Supply
14 Specialist's responsibility to know and follow those guidelines." (Affiliated Procedures
15 Section of Manual).

16 **Q. DO YOU BELIEVE THAT THIS COMPETITIVE BIDDING PROCESS**
17 **RESULTS IN ATMOS OBTAINING THE GAS SUPPLIES FOR THE MISSOURI**
18 **SYSTEMS AT THE LOWEST AND BEST PRICE AVAILABLE?**

19 A. Yes. The Company's open, competitive bidding process allows the opportunity for the
20 Company to obtain numerous proposals from a variety of gas marketers who are in the
21 very competitive market of providing gas supplies to local distribution companies
22 throughout the country. We have been successful in obtaining sufficient gas supplies at
23 market prices by using this competitive process that allows the Company to provide our
24 customers with reliable natural gas at just and reasonable rates.

25 **Q. PLEASE DESCRIBE THE REQUEST FOR PROPOSAL PROCESS THAT WAS**
26 **USED IN THIS ACA PERIOD.**

27 A. Atmos followed the same Request For Proposal process during the 2007-2008 ACA
28 period that is described in the Manual.

29 **Q. FOR THE RFPS WITH AN ISSUE DATE IN THIS ACA PERIOD, SEPTEMBER**
30 **2007 – AUGUST 2008, HOW MANY BIDS WERE SOLICITED AND RECEIVED**

1 **FOR THE GAS SUPPLIES IN THE VARIOUS MISSOURI OPERATING**
2 **SYSTEMS SERVED BY THE COMPANY?**

3 A. For the Hannibal/Bowling Green system, Atmos sent RFP letters to fifty-six (56) entities
4 on the Bidder List maintained by the Company. Out of the 56 solicited bid requests,
5 Atmos received conforming bids from the following ** [REDACTED]

6 [REDACTED] **.

7 For the Butler system, Atmos sent RFP letters to thirty-nine (39) entities on the Bidder
8 List maintained by the Company. Out of the 39 solicited bid requests, Atmos received
9 conforming bids from the following ** [REDACTED]

10 [REDACTED]

11 [REDACTED] **.

12 For the Kirksville system, Atmos sent RFP letters to thirty-nine (39) entities on the
13 Bidder List maintained by the Company. Out of the 39 solicited bid requests, Atmos
14 received conforming bids from the following ** [REDACTED]

15 [REDACTED]

16 [REDACTED] **.

17 For the MRT Piedmont/Arcadia system, Atmos sent RFP letters to thirty-nine (39)
18 entities on the Bidder List maintained by the Company. Out of the 39 solicited bid
19 requests, Atmos received conforming bids from the following ** [REDACTED]:

20 [REDACTED] **.

21 For the NGPL Jackson system, Atmos sent RFP letters to thirty-nine (39) entities on the
22 Bidder List maintained by the Company. Out of the 39 solicited bid requests, Atmos
23 received conforming bids from the following ** [REDACTED]

1 [REDACTED]

2 [REDACTED]**.

3 For the Tetco system, Atmos sent RFP letters to thirty-nine (39) entities on the Bidder
4 List maintained by the Company. Out of the 39 solicited bid requests, Atmos received
5 conforming bids from the following ** [REDACTED]

6 [REDACTED]**.

7 For the Ozark system, Atmos sent RFP letters to thirty-nine (39) entities on the Bidder
8 List maintained by the Company. Out of the 39 solicited bid requests, Atmos received
9 ** [REDACTED]**.

10 **Q. WHAT ENTITIES WERE SELECTED AND AWARDED THE GAS SUPPLY**
11 **CONTRACTS DURING THIS ACA PERIOD?**

12 **A.** During the 2007-2008 ACA period, the following bidders were selected and awarded the
13 gas supply contracts since these entities submitted the lowest and best bid for the various
14 systems:

<u>Gas Supplier</u>	<u>Pipe – System</u>
** [REDACTED] **	PEPL – NE Hannibal/Bowling Green and W Butler
** [REDACTED] **	ANR – NE Kirksville
** [REDACTED] **	MRT – SE Piedmont/Arcadia
** [REDACTED] **	NGPL – SE Jackson
** [REDACTED] **	Tetco - SE
** [REDACTED] **	Ozark - SE

1 Q. IN ITS RECOMMENDATION TO THE COMMISSION, STAFF PROPOSED
2 ADJUSTMENTS RELATED TO THE AFFILIATE TRANSACTIONS IN
3 ** [REDACTED] **. FOR THESE
4 AREAS, DID THE COMPANY SELECT THE SUPPLIER WHO SUBMITTED
5 THE LEAST COST BID?

6 A. Yes. Both proposed adjustments relate to commodity-only deals. The RFPs solicited
7 that the commodity arrangements be priced to an industry index. The evaluation is
8 simple and straightforward. Whichever bid offers the least expensive price, the Company
9 chooses that supplier to provide the commodity for that area. The commodity flows on
10 our firm transportation contracts, so there are no reliability issues.

11 Q. IN ITS RECOMMENDATION TO THE COMMISSION, STAFF EXPRESSED
12 CONCERN OVER THE COMPANY'S AFFILIATE BEING THE WINNING
13 BIDDER IN SEVERAL RFPs. IS IT UNUSUAL FOR A SUPPLIER TO WIN
14 MULTIPLE RFPs?

15 A. No. In fact, it is common for suppliers to win multiple RFPs. I compiled the results of
16 Atmos' Missouri RFPs for the period 2004 – 2009, and the results support this fact.
17 During these five and a half years, Atmos issued 48 RFPs for Missouri gas supply. The
18 following suppliers won multiple RFPs: ** [REDACTED]

19 [REDACTED]

20 [REDACTED] **.

21 Q. HAS A SUPPLIER EVER WON CONSECUTIVE RFPs FOR THE SAME
22 MISSOURI SYSTEM?

A. Yes. From spring 2004 through fall 2009, there were numerous occurrences where suppliers won consecutive RFPs for the same Missouri system. The following suppliers won consecutive RFPs:

<u>Supplier</u>	<u>Pipe – System</u>	<u>Consecutive Wins</u>
** [REDACTED] **	NGPL Jackson	6 consecutive RFPs
** [REDACTED] **	Tetco SE MO	5 consecutive RFPs
** [REDACTED] **	MRTL Piedmont/Arcadia	5 out of 6 consecutive RFPs
** [REDACTED] **	Ozark SE MO	4 consecutive RFPs
** [REDACTED] **	ANR Kirksville	3 consecutive RFPs
** [REDACTED] **	PEPL Hannibal	2 consecutive RFPs
** [REDACTED] **	PEPL Butler	2 consecutive RFPs
** [REDACTED] **	S.Star – Rich Hill/Hume	2 consecutive RFPs

Q. DOES THE FACT THAT SUPPLIERS ARE AWARDED CONSECUTIVE RFPs CONCERN YOU?

A. No, I am not concerned for several reasons. First, I know with full assurance that our Atmos RFP process is fairly and ethically administered, providing all suppliers an even playing field to bid. Second, I think it is likely that some suppliers have more experience or hold more upstream capacity and storage on certain pipes as compared to other suppliers; that may give them more flexibility in supply pricing than the other suppliers. Third, when a supplier is awarded a gas supply contract for a particular Missouri system, it becomes familiar with the operating characteristics of that area, and thus that supplier may be in a better position to bid competitively in the next RFP for that same area. Finally, larger suppliers may have economies of scale that allow them to consistently bid more competitively than suppliers who are not as efficient.

1 **Q. OF THE SEVEN SUPPLIERS THAT HISTORICALLY WON CONSECUTIVE**
2 **RFPS, ARE ANY CONSIDERED LARGE SUPPLIERS?**

3 A. Yes. All seven suppliers including Atmos Energy Marketing were listed among the Top
4 North American Gas Marketers in the third quarter 2008 report of Natural Gas
5 Intelligence's Rankings of Gas Marketers.¹

6 **Q. HAS ATMOS ENERGY MARKETING ("AEM") DOMINATED THE RFP**
7 **PROCESS AND BEEN THE MOST AWARDED BIDDER FOR THE ATMOS**
8 **MISSOURI GAS SUPPLIES?**

9 A. No. Please refer to confidential Attachment No. 2, which is a table that includes a history
10 of the successful bidders. It clearly demonstrates that AEM was not awarded the contract
11 on many occasions over the years 2004 through 2009.

12 **Q. DID THE GAS SUPPLY CONTRACTS PROVIDE FOR A FIRM GAS SUPPLY**
13 **SERVICE?**

14 A. Yes. All of the gas supply contracts require firm supply.

15 **Q. WHAT ASSURANCE DO YOU HAVE THAT THE GAS SUPPLIES WERE**
16 **TRANSPORTED USING FIRM TRANSPORTATION SERVICE?**

17 A. With the exception of the two bundled Supply/Asset Management Agreements for
18 Piedmont/Arcadia and Rich Hill/Hume (which are not in question in this docket), all
19 natural gas supplies for the Missouri regulated utility customers must flow on Atmos'
20 firm transportation contracts. This is required for compliance with FERC's "shipper

¹ The source of the Natural Gas Institute ("NGI") Rankings of Gas Marketers is the following webpage posted by Intelligence Press:
http://intelligencepress.com/features/rankings/gas/gas_marketer_rankings_2008q3.html

1 must have title” rule. In other words, in procuring gas from the suppliers, Atmos takes
2 title of the gas at the pipeline receipt points provided for in our Firm Transportation
3 contract. Atmos is the “shipper.” The gas then moves from the receipt point to the
4 delivery point, flowing on our firm pipeline capacity. Additional assurance is provided
5 through the routine monthly invoice process. The Atmos Gas Supply Specialist
6 responsible for the Missouri gas supply procurement verifies that the gas he purchased
7 was transported on the appropriate pipeline contracts, and he confirms that the pipeline
8 records support the volumes invoiced by the supplier. It is through this process we have
9 assurance that the gas supply flowed on our firm Atmos contracts.

10 **Q. DID THE AFFILIATE MEET ITS CONTRACTUAL OBLIGATIONS?**

11 A. Yes. The Affiliate provided reliable and economical gas supply and met its contractual
12 obligations. There were no performance issues.

13 **Q. DO YOU BELIEVE THAT THE COMPANY’S GAS SUPPLY COSTS WERE**
14 **REASONABLE AND PRUDENT DURING THIS ACA PERIOD?**

15 A. Absolutely. Atmos has been successful in obtaining gas supplies during this ACA period
16 that were reasonable and prudent. In every instance, the Company used a fair and arms
17 length competitive bid process to solicit, evaluate and award the contract to the qualified
18 bidder who offered the least cost supply. Atmos gave no preferential treatment to any
19 bidder, incumbent or otherwise, and regardless of affiliate status. All bidders were on an
20 equal playing field. Each employee of the Regional Gas Supply Department is well
21 aware of Atmos’ affiliate procedures (refer to Attachment No. 1). Without question, in
22 all aspects of the job, the Regional Gas Supply Department employees exemplify the
23 highest ethics and act with professionalism and integrity.

1 **STAFF'S RECOMMENDATIONS AND ADJUSTMENTS**

2 **Q. WHAT IS YOUR UNDERSTANDING OF THE REMAINING ISSUES BETWEEN**
3 **STAFF AND THE COMPANY IN THIS CASE?**

4 A. The Company agrees with most of the adjustments proposed by Staff, with the exception
5 of the Affiliated Transactions Adjustments. The Company, however, strongly disagrees
6 with the Affiliated Transaction Adjustments, as explained more fully herein. Initially,
7 there was also a concern about the Beginning Balances included in the Staff
8 Recommendation. However, it is my understanding that the Staff has agreed to correct
9 errors in the Beginning Balances, and there is no longer an issue between the Company
10 and Staff on the Beginning Balances.

11 **Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE AFFILIATED**
12 **TRANSACTION ADJUSTMENTS SUBMITTED BY THE STAFF IN THIS CASE.**

13 A. It is my understanding that Staff has proposed to lower Atmos' gas supply costs by an
14 amount equal to Staff's calculation of the profits of AEM on transactions in the
15 ** [REDACTED] ** areas of the Company. In effect, Staff is proposing to
16 impute the profits of AEM to Atmos, and thereby lower the gas supply costs to the
17 customers in these areas. In effect, \$349,015 of Atmos' gas costs will be disallowed in
18 the ** [REDACTED]
19 [REDACTED] **, and by \$13,964 disallowed in the ** [REDACTED]
20 [REDACTED] **, even though the AEM bid was the lowest and best bid in these areas. Atmos
21 was committed contractually to pay the amount of the bid that was accepted. However,
22 Staff's proposed adjustment will require Atmos shareholders to absorb \$362,979
23 [\$349,015 + \$13,964] of prudently incurred costs.

1 **Q. WHAT IS THE BASIS FOR THIS UNDERSTANDING?**

2 A. The Staff Recommendation filed on December 28, 2009 includes the following
3 explanation for Staff's proposed Affiliated Transaction Adjustments:

4 "Based upon AEM's reported profit, as adjusted by Staff, disallowances are proposed for
5 ** [REDACTED] ** agreements. These are supply-only
6 agreements, meaning that AEM provided the entire supply during the effective dates, but
7 did not use the transportation or storage contracts under Asset Management Agreements.

8 AEM, through its affiliate AEC, provided Staff with an analysis of its Profit and Losses
9 (P&L) for ** [REDACTED] **. This analysis provided the underlying
10 gas packages procured by AEM for serving its affiliate. However, this analysis only
11 included profits and losses for baseload packages of gas that it provided. Staff's
12 analysis expands on AEM's P&L statement and encompasses the P&L for swing gas
13 volumes provided by AEM to AEC. The swing gas supplied was not included in AEM's
14 calculation. With the inclusion of the swing gas sales to AEC, Staff proposes an
15 adjustment of (\$349,015) ** [REDACTED] ** and an adjustment of (\$13,964) ** [REDACTED]
16 [REDACTED] **."

17 **Q. HAS STAFF ALSO PROVIDED THE COMPANY WITH A COPY OF ITS**
18 **WORKPAPERS THAT SUPPORT ITS ADJUSTMENT?**

19 A. Yes. However, the Company at this point does not fully understand the methodology
20 utilized by Staff for making its proposed adjustments. Staff provided an Excel file in
21 support of their proposed adjustments, but failed to explain how the proposed
22 adjustment was calculated and any premise behind the proposed adjustment. If
23 Staff's adjustments relied on data provided by AEM, I am unable to verify that
24 because I have neither knowledge of nor access to AEM's proprietary information. I
25 do not know if Staff considered any operating costs, or simply imputed incremental
26 gross revenue. The notion that the affiliate earned \$362,979 on the relatively small
27 ** [REDACTED] ** systems has not been confirmed. These two systems
28 combined only serve approximately 18,000 mostly residential customers. Given our

1 experience, and the fact that the affiliate contracts were supply only arrangements,
2 the Company is skeptical of the amount of Staff's affiliate adjustment.

3 **Q. DO YOU AGREE WITH THE STAFF'S PROPOSED AFFILIATED**
4 **TRANSACTIONS ADJUSTMENTS?**

5 A. No. Atmos must respectfully disagree with Staff's concerns related to the fact that
6 Atmos has utilized the services of AEM, an affiliate of Atmos, for some of its underlying
7 gas supply services. Staff's concerns and proposed adjustments are misplaced, and
8 should be rejected by the Commission.

9 As explained earlier in the testimony, Atmos utilized a formal Request For Proposal
10 (RFP) process, as required by 4 CSR 240-40.016(4)(A), to determine that AEM's
11 proposals for gas supplies were the least expensive, and best proposal for Atmos and its
12 customers.

13 Such competitive bidding is required by 4 CSR 240-40.016, unless the regulated
14 company can demonstrate why competitive bids were neither necessary or appropriate:

15 4 CSR 240-40.016(4)(A) states as follows:

16 When a regulated gas corporation purchases . . . goods or services from an
17 affiliated entity, the regulated gas corporation shall either obtain
18 competitive bids for such . . . goods or services or demonstrate why
19 competitive bids were neither necessary nor appropriate.
20

21 In this case, Atmos utilized the preferred competitive bidding process to obtain its gas
22 supplies. Staff does not dispute this fact and identifies no fault with the bidding process
23 itself. Staff does not dispute that AEM was the least cost bid. Despite this, Staff seems
24 to have an underlying and unfounded distrust of the contractual arrangements solely
25 because they involve an affiliated company. This Staff distrust is completely misplaced.

1 Since AEM provided the lowest and best bid for **[REDACTED]** gas supplies, the
2 regulatory concerns related to the affiliated transaction should be satisfied. If Atmos had
3 entered into a transaction with its affiliate that was not the least expensive and best bid,
4 then Staff would have a legitimate concern about the prudence of gas costs incurred.
5 However, those are not the facts in this case.

6 Staff attempts to impute the profits from AEM to Atmos, suggesting that it is somehow
7 imprudent for Atmos to accept the low cost bids of AEM. Staff suggests that AEM's bid
8 should be even lower (even though the analysis of other bids already shows AEM to be
9 the lowest of all bids received). In essence, Staff does not afford AEM the same
10 opportunity to make a profit as the other suppliers. It appears that Staff is intent on
11 making AEM provide a non-profit gas supply service to the Missouri customers. This
12 adjustment is improper and should be rejected by the Commission.

13 Atmos also has a fundamental disagreement with Staff regarding the appropriateness of
14 any adjustment to Atmos' gas costs related to the AEM contracts for gas supplies. The
15 Staff has not demonstrated the imprudence of Atmos entering into the contracts with
16 AEM that provide the lowest cost gas supplies for Atmos and its customers. However,
17 the Staff has proposed a disallowance for these costs apparently for the sole reason that
18 the gas supply contracts were provided by an affiliate. Atmos does not believe that Staff
19 has provided a reasonable or lawful basis for its proposed affiliated transactions
20 disallowances.

21 **Q. DO THE MISSOURI AFFILIATED TRANSACTION RULES PROHIBIT THE**
22 **REGULATED COMPANY FROM USING THE SERVICES OF AN AFFILIATED**
23 **GAS MARKETER?**

1 A. No. Quite to the contrary, the Commission's Affiliated Transactions Rules, 4 CSR 240-
2 2.015 and 4 CSR 240-2.016 specifically contemplate that the regulated gas corporation
3 may do business with a marketing affiliate. In fact, 4 CSR 240-2.016 addresses
4 "Marketing Affiliate Transactions" and establishes parameters for dealing with marketing
5 affiliates of a regulated gas corporation in great detail.

6 **Q. HAS ATMOS PROVIDED A FINANCIAL ADVANTAGE TO ITS AFFILIATED**
7 **COMPANY BY AWARDING THE GAS SUPPLY CONTRACTS TO AEM?**

8 A. No. Atmos has compensated AEM for its gas supplies at the competitively determined
9 fair market value.

10 **Q. WHAT IS THE BASIS FOR DETERMINING THE FAIR MARKET VALUE OF**
11 **THE GAS SUPPLIES PROVIDED BY AEM TO ATMOS?**

12 A. The open, competitive bidding process utilized by Atmos during the ACA period
13 determined the fair market value of the gas supplies provided by AEM. AEM's bid was
14 the lowest and best bid submitted for those gas supplies during this competitive bidding
15 process. Atmos strongly believes that this bidding process is the best way to determine
16 the fair market value for these gas supplies.

17 **Q. WHAT IS THE BASIS FOR DETERMINING THE FULLY DISTRIBUTED COST**
18 **TO THE REGULATED GAS COMPANY (ATMOS) TO PROVIDE THOSE GAS**
19 **SUPPLIES TO ITSELF?**

20 A. Atmos' Regional Gas Supply Department does not have the in-house expertise to perform
21 the gas marketing services that AEM and other marketers provide to Atmos. For
22 example, Atmos does not have personnel experienced in obtaining gas supplies from the
23 producers of natural gas, trading on the physical and financial markets, or arranging for

1 interstate and/or intrastate transportation services from upstream suppliers. The Regional
2 Gas Supply Department employs four professionals who are my direct reports. They
3 include a Senior Administrative Assistant, a Gas Supply Representative responsible for
4 IL, TN, and VA, a Gas Supply Specialist responsible for GA and KY, and a Gas Supply
5 Specialist responsible for IA and MO. In order to perform the services that gas marketers
6 provide, the Company would need to hire or train additional personnel at a substantial
7 cost and develop processes already utilized by gas marketers for securing gas supplies
8 and transportation services in the interstate market. It is unlikely that Atmos could
9 perform such specialized services for the sole benefit of the Missouri jurisdiction at a
10 lower cost than a marketer who performs these services routinely for a much broader
11 customer base. A basic understanding of economies of scale makes this a reasonable
12 conclusion.

13 Assuming the Company hired or developed personnel qualified to perform the marketing
14 function, over and above this expense, we would still need to negotiate and contract for
15 the purchase of the physical gas commodity. The price of the natural gas would still be
16 determined by market forces, just as it is in our current supply contracts. Therefore, to
17 get to the same outcome, the Company would have to layer in the added cost of personnel
18 and related expenses. In addition, Atmos would be entitled to include a reasonable return
19 on the cost of the new marketing functions. Considering all these factors, Atmos believes
20 that the Fully Distributed Cost of providing the gas marketing services in-house would
21 exceed the market price of those gas supplies, as established by the competitive bidding
22 process.

1 **Q. WHY IS STAFF'S PROPOSED AFFILIATED TRANSACTIONS ADJUSTMENT**
2 **INAPPROPRIATE AND UNREASONABLE?**

3 A. The proposed affiliated transactions adjustment is inappropriate and unreasonable
4 because Atmos' gas costs are prudent, and the Company has complied with the
5 Commission's Affiliated Transaction Rule by competitively bidding for its gas supplies.
6 Atmos has treated its affiliated gas supplier in the same manner as it has the other gas
7 suppliers that participate in the RFP process. It would be unreasonable to expect Atmos
8 to lower its gas costs by some amount of imputed profits of one of its gas marketers when
9 it is contractually obligated to pay the bid price of the lowest and best bid accepted from
10 the affiliated gas marketer.

11 In responses to Staff data request DR 0079 in the current case, Atmos provided its RFP
12 evaluations. These evaluations clearly show that in every instance Atmos awarded the
13 contract to the supplier who submitted the least cost and best bid.

14 **Q. DOES THIS CASE RAISE A VERY SERIOUS PUBLIC POLICY QUESTION**
15 **FOR THE COMMISSION?**

16 A. Most definitely. If the Commission decides that Staff's interpretation of the Affiliated
17 Transaction Rule is appropriate, it will provide a huge disincentive for regulated gas
18 corporations to deal with an affiliated gas marketer, even if that gas marketer could
19 provide the lowest and best bid for natural gas supplies. In effect, the regulated natural
20 gas corporation will have to lower its gas costs by an amount equal to some imputed
21 profit level of the affiliated gas marketer, even though the natural gas company will be
22 required by contract to pay the affiliated gas marketer the bid price that includes that
23 profit level for the natural gas supplies.

1 **Q. COULD THE STAFF'S INTERPRETATION OF THE AFFILIATED**
2 **TRANSACTIONS RULE HAVE AN ADVERSE IMPACT UPON CUSTOMERS?**

3 A. Yes. Staff's interpretation of the Affiliated Transaction Rule will cause the regulated
4 natural gas corporations in Missouri to forego dealing with an affiliated gas marketer,
5 even though the affiliated gas marketer is offering to provide gas supplies at a lower price
6 than all other bidders for those gas supplies. As a result, customers will not receive the
7 lowest and best price for their natural gas supplies.

8 To illustrate this, we can look at the results of the two RFPs referenced in Staff's
9 disallowance. In the **[REDACTED]**, if the supply contract had not been awarded to
10 lowest cost best bidder, which happened to be the affiliate, but instead had been awarded
11 to the second place bidder, the annual gas costs for the **[REDACTED]** customers
12 would increase \$38,000. Similarly, in the **[REDACTED]**, if the supply contract had
13 been awarded to the second place bidder, the annual gas costs for the customers **[REDACTED]
14 [REDACTED]** would increase \$1,050. Support for these amounts is found in the Company's
15 bid evaluations provided in response to Staff data request DR 0079 in the current case.

16 From my perspective, this result would be unfortunate (for the integrity of the
17 competitive bid process and for the customers), and should not be encouraged by the
18 Commission.

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes. However, since the Staff has not yet filed its testimony explaining its proposed
21 adjustments, Atmos reserves the right to respond and elaborate upon this testimony after
22 it has reviewed the Direct Testimony of Staff in this proceeding.

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

In the matter of PGA / ACA filing of Atmos)
Energy Corporation for the West Area (Old)
Butler), West Area (Old Greeley),)
Southeastern Area (Old SEMO), Southeastern Area)
(Old Neelyville), Kirksville Area, and in the)
Northeastern Area)

Case No. GR-2008-0364

AFFIDAVIT OF REBECCA M. BUCHANAN

STATE OF TENNESSEE

)
) ss
)

COUNTY OF WILLIAMSON

Rebecca M. Buchanan, being first duly sworn on his oath, states:

1. My name is Rebecca M. Buchanan I am employed by Atmos Energy Corporation as Manager, Regional Gas Supply. My business address is 377 Riverside Dr, suite 201, Franklin, TN 37064-5393.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Atmos Energy Corporation consisting of twenty-three (23) pages and Schedule(s) Attach. No. 1 through Attach. No. 2 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.

Rebecca M. Buchanan
Rebecca M. Buchanan

Subscribed and sworn before me this 1 day of March 2010.

Deborah G. Sparkman
Notary Public

My commission expires: _____

My Commission Expires:
September 16, 2012

