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Introduction of Witnesses
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2010-

DIRECT TESTIMONY

OF

KEVIN AKERS

ON BEHALF OF

ATMOS ENERGY CORPORATION

DECEMBER, 2009

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OF KEVIN AKERS

WITNESS ON BEHALF OF

ATMOS ENERGY CORPORATION

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

I. POSITION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Kevin Akers. I am President of the Kentucky/Mid-States Division of Atmos Energy Corporation ("Atmos" or "Company"). My business address is 810 Crescent Centre Drive, Suite 600, Franklin, Tennessee 37067.

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

A. I earned a Bachelor of Science degree in Petroleum Engineering from The University of Alabama in 1987. From 1988 to August of 1991, I worked for the Indiana Utility Regulatory Commission as a Gas Engineer. I joined Atmos Energy Corporation, in our Kentucky Division, in August of 1991 as an Engineer. I held positions of increasing responsibility before being named Regional Vice President of Operations in 1997. In that position, I was responsible for safety, maintenance, construction, and customer service. From 1999 to 2001, I also served as Chairman of the Atmos Utility Operations Council which has the responsibility for developing and executing the Company's best practices regarding environmental, safety compliance, technical, supply chain and operating

1 standards. From 2001 to 2002, I was Regional Vice President of Operations for our
2 northern region in the Louisiana Division. In December 2002, I was named the President
3 of Mississippi Valley Gas Company, now the Mississippi Division. As President of
4 Atmos' Mississippi Division, I had responsibility for customer services, operations,
5 regulatory and community relations and the financial performance of this division. In
6 May of 2007, I was named the President of the Kentucky/Mid-States Division. My
7 responsibility covers customer services, operations, regulatory and community relations
8 and the financial performance of the seven (7) states that make up this division.
9

10 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?**

11 A. No. However, I have provided testimony before the Georgia Public Service Commission,
12 the Tennessee Regulatory Authority and the Kentucky Public Service Commission.
13

14 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

16 A. My direct testimony has three primary purposes. First, I will briefly describe the
17 Company's operations in Missouri and the recent history of its rate proceedings before
18 this Commission. Second, I will describe the principal factors requiring Atmos to file
19 this rate application and the key issues in the case. Finally, I will introduce the other
20 witnesses who will be providing support for the requested rate increase and other
21 proposed tariff changes.
22
23

1 **III. ATMOS' OPERATIONS IN MISSOURI**

2 **Q. CAN YOU PROVIDE THE COMMISSION WITH A GENERAL DESCRIPTION**
3 **AND BACKGROUND OF ATMOS' OPERATIONS IN MISSOURI?**

4 A. Yes. We have a Missouri based work force of approximately 71 employees providing
5 safe and reliable service to a customer base of residential, commercial and industrial
6 consumers of over 56,000. Our regional offices are located in Jackson, Sikeston, Malden,
7 Caruthersville, Hannibal, Kirksville and Butler. Our utility plant in Missouri includes
8 over 2,100 miles of transmission and distribution lines.

9
10 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF ATMOS ENERGY'S**
11 **CORPORATE STRUCTURE.**

12 A. Atmos is the largest pure natural gas distribution company in the United States. It
13 delivers gas to approximately 3.1 million residential, commercial, industrial and public-
14 authority customers in 12 states. Atmos has six gas utility operating divisions. They are
15 located in Denver, Colorado (Kansas and Colorado division); Baton Rouge, Louisiana
16 (Louisiana division); Jackson, Mississippi (Mississippi division); Lubbock, Texas (West
17 Texas division); Dallas, Texas (Mid-Tex division); and Franklin, Tennessee
18 (Kentucky/Mid-States division). In addition, Atmos has an operating division consisting
19 of a regulated intrastate pipeline that functions only within the state of Texas. Atmos'
20 corporate offices are located in Dallas, Texas.

1 **IV. PRINCIPAL FACTORS FOR THIS RATE APPLICATION**

2 **Q. WHY DID THE COMPANY FILE THIS CASE?**

3 A. The Company is requesting that the Commission approve new distribution rates that will
4 provide revenues equal to our cost of service, including a reasonable return on
5 investment. As the Commission is aware, the actual costs of the natural gas consumed by
6 our customers are collected through a gas cost adjustment mechanism. The purpose of
7 this case is to establish new distribution rates.

8
9 **Q. WHEN DID THE COMPANY'S CURRENT RATES BECOME EFFECTIVE?**

10 A. The Company's current rates were established by the Commission in Case No. 2006-
11 0387 filed on April 7, 2006, and decided by the Commission's Order dated February 22,
12 2007. The Commission found that it would be just and reasonable and in the public
13 interest to implement a straight fixed variable rate design. The Commission also found
14 that no net additional revenue requirement was necessary. Therefore, the last revenue
15 increase granted to the Company was in 1995, for the natural gas properties previously
16 served by United Cities Gas Company, for \$903,000. The last rate increase granted for
17 the properties previously served by Associated Natural Gas was in 1997 for
18 approximately \$1.5 million.

19
20 **Q. ARE THE DISTRIBUTION RATES CURRENTLY IN EFFECT PROVIDING**
21 **SUFFICIENT REVENUES?**

22 A. No. Although Atmos operates very efficiently and safely, our current rates are not
23 providing a fair return on the Company's investments. In fact, we have experienced a

1 negative return on equity the last two fiscal years. Atmos Energy has invested over \$54
2 million in infrastructure in Missouri since the above mentioned rate cases and
3 approximately \$24 million of that total being invested since the test year in Case No. GR-
4 2006-0387. More specifically we have completed the copper service replacement
5 program and have also completed the small diameter cast iron replacement program.
6

7 **Q. WHAT ARE THE PRIMARY FACTORS DRIVING THE COMPANY'S**
8 **REQUEST FOR AN INCREASE IN RATES?**

9 A. There are two primary factors contributing to the current revenue deficiency. First,
10 because of changes in market conditions, our authorized rates are not producing a level of
11 revenues equal to that anticipated in our previous rate case. I will discuss these changes
12 later in my testimony. Second, the cost of providing service has increased.
13 Consequently, we are seeking timely and adequate rate relief in order to maintain the
14 current high-quality, safe and reliable service our customers expect.
15

16 **Q. WHAT RATE OF RETURN ON RATE BASE IS ATMOS REQUESTING IN THIS**
17 **RATE APPLICATION?**

18 A. Atmos is asking the Commission to approve new rate schedules that would increase
19 revenues to provide an overall rate of return on rate base of 8.66% on the test year rate
20 base of \$66,458,687.

21 **Q. WHAT IS THE AMOUNT OF THE RATE INCREASE THAT ATMOS IS**
22 **SEEKING IN THIS RATE APPLICATION?**

1 A. Atmos is seeking approval to increase its rates to recover approximately \$6.4 million in
2 additional revenues. For an average residential customer, the total bill increase would be
3 \$8.81 per month.
4

5 **Q. HOW DO YOU SUGGEST THAT NEW RATES RECOVER THE**
6 **DISTRIBUTION REVENUE INCREASE?**

7 A. I recommend that the monthly charge pursuant to the current straight fixed variable rate
8 design be increased to reflect the revenue requirement requested. Although rate design
9 issues are addressed in greater detail in the testimony of others, it is very important that
10 this Commission not increase the amount of revenue that is at risk of recovery through
11 volumetric rate components. Virtually all of a natural gas local distribution company's
12 costs of service (other than the costs of gas, which are not recovered in base distribution
13 rates) are fixed, as opposed to variable. By fixed, I mean that the costs do not increase or
14 decrease as the volume of natural gas delivered to our customers increases or decreases.
15

16 **Q. CAN YOU DESCRIBE THE CHANGES IN MARKET CONDITIONS THAT**
17 **GIVE RISE TO THIS RATE FILING?**

18 A. Yes. We have experienced a decline in both the amount of natural gas used by
19 our customers and in the number of customers served. Most natural gas distribution
20 companies in this country are experiencing similar declining use per customer and
21 declining number of customers. The number of residential customers on our system
22 continues to decline and has dropped by nearly 3,000 customers from when Case GR-
23 2006-0387 was filed. The number of commercial customers on our system has declined

1 by more than 400 customers during the same period. As more fully described by
2 Company witness Mr. Gary Smith, we also continue to experience a declining use-per-
3 customer trend for residential, commercial and public authority customers. Thus, even if
4 our costs of providing service were as low today as the Commission determined to be
5 appropriate in Case No. GR-2006-00464, our existing rates would cause the Company to
6 under recover.

7
8 **Q. YOU STATED THAT MOST NATURAL GAS DISTRIBUTION COMPANIES IN**
9 **THIS COUNTRY ARE EXPERIENCING SIMILAR DECLINING USE-PER-**
10 **CUSTOMER AND DECLINING NUMBER OF CUSTOMERS. HAVE OTHER**
11 **COMMISSIONS APPROVED RATE MECHANISMS OR RATE DESIGNS THAT**
12 **ADDRESS THESE ISSUES?**

13 A. Yes. Various innovative rate mechanisms and rate designs have been adopted across the
14 nation to address these issues. In this case, Atmos is requesting the continuation of the
15 straight fixed variable rate structure which helps mitigate the effects of weather and
16 declining usage levels. Decoupling mechanisms, which are rate mechanisms that permit
17 a natural gas distribution company to collect authorized levels of revenue without regard
18 to the volume of natural gas delivered, have been approved in 18 jurisdictions. Similar
19 proposals are currently pending in two jurisdictions as of the date of this filing.
20 Moreover, eight companies within six jurisdictions have approved rate stabilization plans,
21 wherein adjustments are made to address the differences, if any, between the authorized
22 level of revenues and the amounts actually collected.

1 **Q. HAVE SUCH MECHANISMS BEEN SUCCESSFULL IN JURISDICTIONS**
2 **THAT ATMOS SERVES?**

3 A. Yes. Specific examples of actions taken in other jurisdictions where the Company
4 operates would include Mississippi, Louisiana, Texas and Virginia. In Mississippi and
5 Louisiana, utilities file prescribed information based on an annual period for review.
6 Depending on the utility, its respective tariffs and the Commission Staff's findings, a rate
7 stabilization factor is adjusted to provide for additional revenue or to return additional
8 revenue to the customer. In most of the Company's Texas service territory, the Company
9 makes an annual filing with the regulatory authority pursuant to a Rate Review
10 Mechanism (RRM) tariff. The regulatory authority reviews the Company's filing and
11 rates are subsequently adjusted. The RRM is currently in the second year of a three year
12 trial period. Similar to the approaches in Mississippi, Louisiana and Texas, Virginia
13 requires utilities to file prescribed information based on an annual period for review.
14 Rates are adjusted asymmetrically downward only. If a utility is under-earning, it can file
15 an expedited case for relief as an alternative to a general rate application implementing
16 interim rates under bond thus reducing lag.

17
18 **Q. DO YOU BELIEVE A SIMILAR MECHANISM WOULD BE APPROPRIATE**
19 **FOR THE COMPANY'S MISSOURI OPERATIONS?**

20 A. Yes. A process similar to those I described in some of the other jurisdictions in which the
21 Company operates would provide for a regularly scheduled rate review that will be less
22 costly and adjust the rates annually in a more expedited manner to actually achieve the
23 result contemplated by the Commission's rate orders.

1
2 **V. INTRODUCTION OF WITNESSES**

3 **Q. PLEASE IDENTIFY THE OTHER WITNESSES SPONSORING TESTIMONY IN**
4 **THIS PROCEEDING?**

5 A. In addition to my testimony, Atmos will present the direct testimony and exhibits of eight
6 witnesses.

7 Gary L. Smith, Director of Rates & Regulatory Affairs for Atmos Energy
8 Corporation, is filing testimony providing an overview of the Company's customer base
9 in Missouri and market trends since 2006; describing the methods used to adjust
10 Company's revenues and volumes and customer counts as they relate to the base period
11 and test period in this case; and presenting the test period adjustment of revenues and
12 volumes.

13 Thomas H. Petersen, Rates Director for Atmos Energy Corporation, is filing
14 testimony in support of the Company's rate base calculation, the calculation of
15 depreciation expense and the Company's class cost of service study

16 Mark A. Martin, Vice President of Rates & Regulatory Affairs for Atmos Energy
17 Corporation's Kentucky/Mid-States Division is presenting testimony to explain how the
18 Company has satisfied the Commission's minimum filing requirements; to sponsor
19 special contracts with two industrial customers, Noranda Aluminum and General Mills;
20 and to support the rate design, rates and tariff changes proposed in this filing, including
21 the recovery of bad debt gas costs through the Gas Cost Adjustment mechanism.

22 Robert E. Hassen, Senior Rate Analyst for Atmos Energy Corporation is
23 presenting testimony to support the adjustments to Operations and Maintenance Expense

1 located in Schedule 4 of the cost of service study as well as to support the payroll tax
2 adjustment located in Schedule 5 of the cost of service study.

3 Daniel Meziere, Director of Accounting Services for Atmos Energy Corporation,
4 is filing testimony regarding the historic books and records of the Company and the
5 integrity of the financial information in this case. He also provides testimony concerning
6 the Company's Cost Allocation Manual, which describes the methodology for shared
7 services cost allocations.

8 Rob Smith, Assistant Treasurer of Atmos Energy Corporation, sponsors the
9 Company's capital structure and cost of debt for use in setting rates in this proceeding.

10 Dr. James Vander Weide testifies regarding Atmos' cost of capital and
11 recommends a rate of return that is appropriate to be used in setting rates for Atmos in
12 this proceeding.

13 14 **VI. CONCLUSION**

15 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

16 A. Yes. It is my opinion that the rates requested in this filing are just, reasonable, and in the
17 public interest and I respectfully request the Commission to provide prompt and adequate
18 rate relief. The costs of providing service in Missouri have increased, along with the
19 costs of other goods and services since our last rate filing. At the same time, both the
20 distribution revenue per customer and the number of customers continue to decline. The
21 Company's ability to continue to provide safe, reliable distribution service requires new
22 rates that will produce revenue, including a reasonable return on the Company's
23 investment, consistent with the requests contained in this application.

1

2 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

3 **A. Yes.**

