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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

Atmos Exhibit No. 1NP
Date 3/23/11 Reporter LRB
File No. GR 2008-0364

*** [REDACTED] *** Designates "Highly Confidential" Information.
Certain Schedules Attached To This Testimony Designated "(HC)"
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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 Kirkville 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]

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[REDACTED]

[REDACTED]**.

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

[REDACTED]**.

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

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

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

Gas Supplier

Pipe - System

** [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?

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

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

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

15 A. No, I am not concerned for several reasons. First, I know with full assurance that our
16 Atmos RFP process is fairly and ethically administered, providing all suppliers an even
17 playing field to bid. Second, I think it is likely that some suppliers have more experience
18 or hold more upstream capacity and storage on certain pipes as compared to other
19 suppliers; that may give them more flexibility in supply pricing than the other suppliers.
20 Third, when a supplier is awarded a gas supply contract for a particular Missouri system,
21 it becomes familiar with the operating characteristics of that area, and thus that supplier
22 may be in a better position to bid competitively in the next RFP for that same area.
23 Finally, larger suppliers may have economies of scale that allow them to consistently bid
24 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) **
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.

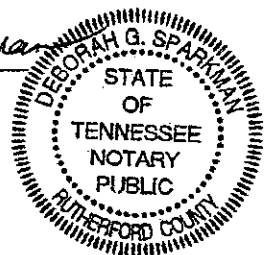
Rebecca M. Buchanan
Rebecca M. Buchanan

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



ATTACHMENT NO. 1

to the

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

GAS SUPPLY AND SERVICES MANUAL

Atmos Energy Gas Supply & Services

Effective January 1, 2007

Revised October 24, 2008

Structure:

See attached organizational chart. Atmos Energy Gas Supply & Services is structured on a regional concept. The East Region covers Georgia, Illinois, Iowa, Kentucky, Missouri, Tennessee, and Virginia and is located in Franklin, Tennessee. The Southwest Region covers Colorado, Kansas, Mississippi and West Texas and is located in Jackson, Mississippi. Both regions are staffed in a similar nature and report to Kenny Malter, Director of Gas Supply and Services, office location New Orleans, Louisiana. Additionally, the New Orleans office directs the Louisiana gas supply operations as well as the functions of gas supply planning/forecasting and hedging administration.

Approval Matrix:

For Invoices, the Gas Supply Specialists verify the accuracy and each respective Manager approves for payment.

For Confirmations, each respective Manager has authority to sign.

For Contracts, the Regional Manager and the Director initials, and the authority to sign resides with VP of Gas Supply and Services or the respective Business Unit President.

New Orleans Office:

Kenny Malter	Director, Gas Supply & Services	504-681-3111
Alan Chambers	Hedging Administrator	504-681-3120
Matt Davidson	Manager, Planning	504-681-3112
Natalie Fernandez	Gas Supply Specialist	504-681-3106

East Region:

Becky Buchanan	Manager, Regional Gas Supply	615-261-2248
Harold Fox	Planning Analyst	615-261-2246
Kim Griffith	Gas Supply Specialist	615-261-2243
Deborah Sparkman	Gas Supply Specialist	615-261-2245
Nancy Tarrant	Senior Administrative Assistant	615-261-2277
Mike Walker	Gas Supply Specialist	615-261-2249

Southwest Region:

Sheri Rowe	Manager, Regional Gas Supply	601-420-5023
Tina Cooper	Gas Supply Specialist	806-798-4428
Sylvia Gibson	Gas Supply Representative	601-420-5026
Queen Jones	Administrative Assistant	601-420-5024
Carolyn Wilson	Gas Supply Specialist	601-420-5025
Cliff Wilson	Gas Supply Specialist	601-420-5027

Senior Vice President
Utility Operations
Tom Cocklin

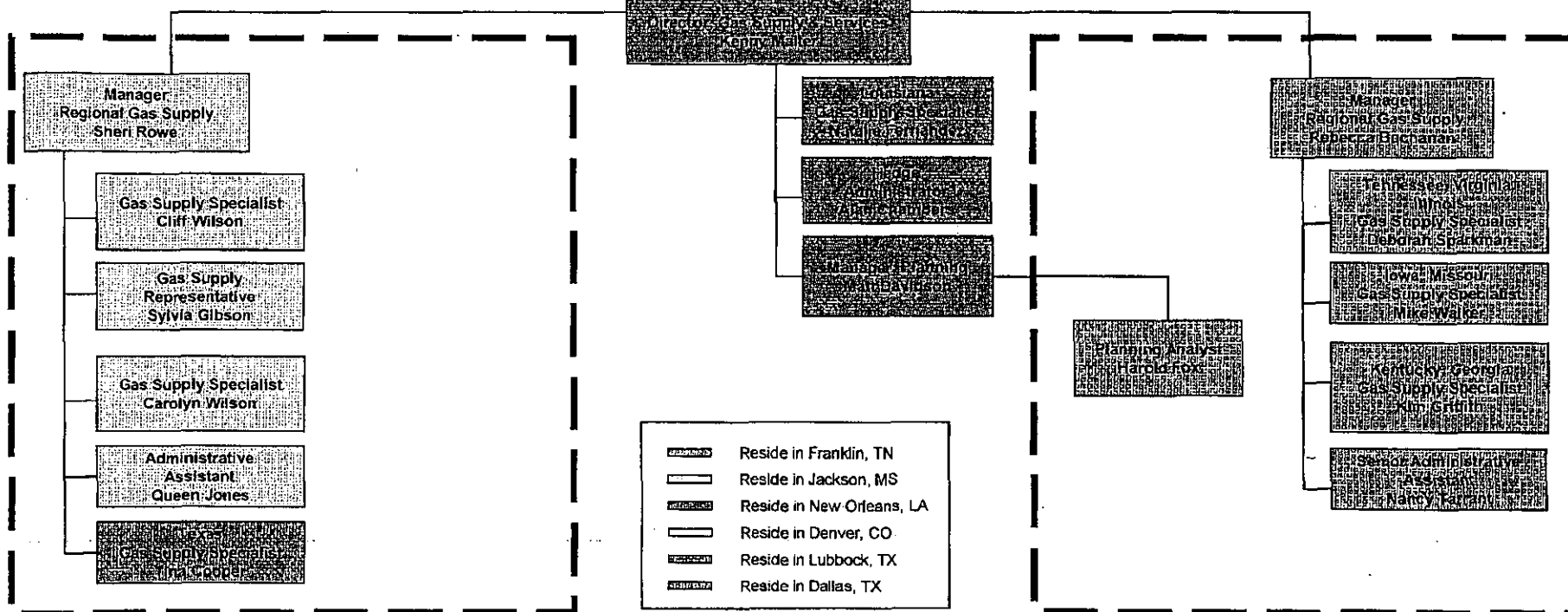
Vice President
Supply Services
Mary Bergeson

Senior Vice President
Supply Services
Deborah Kari

Director Gas Supply Services
Kenny Miller

Southwest Region

East Region



Atmos Energy Gas Supply & Services

Effective January 1, 2007

Revised October 24, 2008

General Information

East Region:

Commission Websites:

Georgia	www.psc.state.ga.us
Iowa	www.state.ia.us/government/com/util/util.html
Illinois	www.icc.illinois.gov
Kentucky	www.psc.state.ky.us/
Missouri	www.psc.mo.gov
Tennessee	www.state.tn.us/tra/
Virginia	www.scc.virginia.gov

State Specific Responsibilities:

Georgia	Kim Griffith	kimberly.griffith@atmosenergy.com
Iowa	Mike Walker	mike.walker@atmosenergy.com
Illinois	Deborah Sparkman	deborah.sparkman@atmosenergy.com
Kentucky	Kim Griffith	kimberly.griffith@atmosenergy.com
Missouri	Mike Walker	mike.walker@atmosenergy.com
Tennessee	Deborah Sparkman	deborah.sparkman@atmosenergy.com
Virginia	Deborah Sparkman	deborah.sparkman@atmosenergy.com

Corporate Website: www.atmosenergy.com

State Specific Pipelines:

Georgia	Transco, SONAT
Iowa	ANR
Illinois	TETCO, NGPL, PEPL, MRT, Trunkline
Kentucky	TGT, TGP, Trunkline
Missouri	TETCO, NGPL, PEPL, MRT, ANR, Ozark
Tennessee	CGT, ETN, TETCO, SONAT, TGT, TGP
Virginia	CGT, ETN, TGP (These are allocated between TN & VA)

Pipeline Websites: <http://aemi.atmosenergy.com/Lists/Tariff%20Rates/AllItems.aspx>

GAS SUPPLY INFORMATION AND PROCEDURES MANUAL

Invoice Log Maintenance Process

The Gas Supply Invoice Log is an Excel workbook, prepared by the Gas Supply Senior Administrative Assistant, used to track the path of gas supply and transportation invoices through the approval process. The invoice log fields are summarized below. The Excel file is saved on to the Shared Drive, S:\Gas Accounting\Invoice Logs, for use by Gas Accounting.

Invoice Log Fields

- A. BTU – This is an optional field to assist in volume reporting.
- B. Est. Vol. MMBtu – This is an optional field that may be used to calculate estimated invoice amounts and for volume reporting.
- C. Invoice Amount – This is a mandatory field where the dollar amount of the invoice is entered.
- D. Amount Verified for Payment – Should be the same as Column C “Invoice Amount”. If amount paid is different from amount of invoice an Invoice Adjustment Advice document is created and logged in separately.
- E. Rate Division – Identifies the applicable rate division.
- F. Invoice Number – Identifies the invoice number. If the invoice has no number, the analyst should create one using the following format YYYY-MM-Invoice Number-XXX where XXX are the initials of the Analyst.
- G. Billing Company – Identifies the vendor
- H. Receiving Entity – Identifies the Atmos Business Division
- I. Date Received – Date stamped on the invoice when it is received is recorded in this field.
- J. Owner – Identifies the Gas Supply Specialist responsible for approval
- K. Gas Supply Approval – Date the approval box was completed; Normally entered by an assistant or Gas Supply Specialist

- L. Orig. Entered in Markview/Acct - Date invoice scanned into Markview and copied to Gas Accounting. Normally entered by an assistant or Gas Supply Specialist
- M. G/L Month – Currently this is an optional field where the General Ledger month is entered .
- N. Log Month – Identifies the month the invoice was received by Atmos. This field is normally set up when the new monthly spreadsheet is created.
- O. Comments - Explanatory comments are entered in this field

Invoice Log Database

The Invoice Log Database is maintained by the Gas Supply Specialists, and updated as they enter the invoice distribution coding. The database file is saved in the following directory: S:\Mid-KY\Acct_Be\Acct_be.mdb.

On a quarterly basis the Gas Supply Senior Administrative Assistant runs a report off the database "Invoice Log by Area" and submits the report on the Atmos Intranet using the Sox compliance tool.

Invoice Verification Process

Effective January 1, 2007

Revised October 24, 2008

Transportation Invoices:

Regional Gas Supply (RGS) is responsible for reviewing and verifying the rates per the applicable individual pipeline tariffs. Pipeline electronic bulletin boards (EBBs) are used for rate verification and EBB rates are accessible without seeking security access from the respective pipeline. Any changes to rates on Interstate Pipeline tariffs are filed with FERC for approval. It is possible that changes in rates will appear on the invoice prior to FERC approval. The Pipeline is required to refund any increases that are not approved by FERC.

Demand Charges- If a Demand Rate changes, the pipeline EBB is accessed for information regarding the FERC-approved filing that has impacted Atmos' rate.

Commodity Charges- They are applied to the volume transported each month, and therefore, are based on usage. Volumes transported should be verified for each service area by the Regional Supply Specialist. Monthly baseload volumes should correspond with the Seasonal Plans for each service area/pipeline.

Incremental volumes, in addition to the baseload volumes needed to meet System Supply requirements, are purchased as needed and should be tracked by volume and agreed upon pricing.

Storage Invoices:

These invoices are a part of the Transportation Invoice. Gas Supply Specialist is responsible for verifying rates charged with each respective pipeline or storage contact. Inventory balances, injections, and withdrawals should be verified as well.

Each transportation/storage contract serves a specific service area with a specific rate division. Invoices which include more than one rate division's expense should be allocated for Accounting's booking purposes and Rates Department filings.

Gas Supply Invoices:

The current commodity contract for natural gas supply for each service area/ pipeline is reviewed prior to invoice verification to determine seasonal, volumetric or other contractual changes.

Pricing Verification- Upon verifying the pricing parameters allowed per the contract, the Gas Supply Specialist should refer to the appropriate publication(s) that are applicable and apply plus or minus premium per the contract. Gas Supply Specialist compares this information against the invoice pricing for accuracy. The Gas Supply Specialist will contact the Supplier and discuss any discrepancies. If an invoice adjustment is necessary the Supplier is requested to send a corrected invoice

Volume Verification-

Baseload volumes are nominated from the first to the last days of each month and should correspond with the Seasonal Plans for each service area/pipeline.

Incremental volumes are volumes necessary to meet System Supply requirements in excess of baseload volumes.

GAS SUPPLY INFORMATION AND PROCEDURES MANUAL

Procedure for Purchasing and Nominating Natural Gas

Effective January 1, 2007

Revised October 24, 2008

The purchasing, nomination and scheduling of natural gas is the process by which the Gas Supply Department meets the Company's firm and interruptible sales customers' seasonal requirements, through first of month and incremental gas purchases, along with managing on-system, as well as pipeline storage injection/withdrawal activity. This specific procedure addresses intra-month/incremental gas purchases, as well as, discussing the necessary nomination and scheduling activities required to perform this activity.

The Gas Supply Specialist is responsible for developing seasonal gas supply requirements Plans for each pipeline system. Each Plan reflects normalized seasonal requirements (winter Nov-Mar and summer Apr-Oct). The Plans consist of monthly purchases and anticipated storage withdrawals/injections. Refer to the Gas Supply Plan Procedure for additional information.

The Regional Gas Supply and Gas Control departments are located in the same office area which provides for seamless access to critical daily gas supply information, as well as short term weather and anticipated load forecasts. The two groups communicate throughout the business day in planning and arranging for daily gas supply needs.

- The Gas Control department is responsible for providing a short term (1-5 days) load forecast twice daily during the winter season and shoulder months. Typically this short term forecast is developed by an analytical comparison to historical utilization and gas day weather data
- The Gas Supply Specialist is responsible for analyzing the short term load forecast on a daily basis to plan the next day(s) gas supply and storage requirements. This load forecast provides the necessary information to determine if current flowing gas along with available storage volumes is adequate, deficient or in excess in meeting the next day(s) forecasted requirements. Also, Third Party nominations are reviewed during this process.
- The daily review process is accumulated during the month to determine whether planned storage utilization is tracking anticipated current month and seasonal usage.
- Discussion as to current and next day gas flow (first of month, storage, and swing gas) takes place on a routine basis between the Gas Supply and Gas Control departments.

- In the event the next day forecast is greater than the first of month flowing gas plus storage maximum withdrawal capability, incremental gas is purchased to accommodate the difference.
 - In the event storage is being utilized substantially more than planned utilization, incremental purchases are made to limit monthly withdrawals.
 - In the event that first of the month nominations/purchases are at levels resulting in monthly storage withdrawals significantly below the planned level, and using current, as well as, forecasted weather along with existing pricing review a prudent decision is made as to whether first of month supply should be turned back during the current month or to reduce any subsequent month(s) purchase.
 - Plans are reviewed once again prior to the end of the current month to determine if revisions are necessary to adjust purchases in the succeeding months.
 - Incremental daily purchases may also be needed for normal operational reasons.
- When changes are made to next day's flowing gas quantities, suppliers must be notified no later than 8:30 AM (time varies by contract), the day prior to any nomination changes (8:30 AM, Friday for any Saturday through Monday changes, if a holiday is on Monday, then changes must be made on Friday morning for Saturday through Tuesday).
 - The incremental volume can be up to the Maximum Daily Quantity on the respective pipeline(s) transportation contract as determined by the supplier contract and the requested incremental quantity is based on a gas daily pricing.
 - When the supplier is notified of any flowing volume adjustments, the supplier then must notify Gas Control, as well as, the appropriate pipeline of the nominated receipt point changes in time to meet the pipeline nomination deadlines. The Gas Supply Specialist either makes, confirms or acknowledges the change with the appropriate pipeline and or supplier and notifies Gas Control of the revised nominated volumes.

Gas Supply Plan Procedure

Effective January 1, 2007

The Gas Supply Specialist shall develop a gas supply plan for each supply season for a twelve (12) month period. The supply plan is based on normal degree days, however, for operational and nomination purposes, the plan should also reflect requirements based on normal, a percent warmer and a percent colder than normal degree days. This percent will vary by state, for example it is 20% in Missouri. Typically, first-of-month nominations are made to cover the daily average of the percent warmer purchase requirements. This will provide flexibility should the warmer weather occur. In the event the weather is normal or colder than normal, swing purchases can be made during the month to continue with the planned monthly storage quantities. This should reduce the occurrences of turning base load supply back and incurring a cost should the gas daily price decrease after the first of month.

Supply Plans shall be reviewed on an ongoing basis and updated with actual data after the completion of each month when actual data is available. The Gas Supply Specialist shall compare actual degree days to normal degree days for the month to determine if planned requirements are tracking properly or whether the plan should be adjusted prospectively. Provided the plan is tracking satisfactorily to the degree days experienced, the plan should only be adjusted prospectively to adjust for planned storage level differences experienced in previous months.

Supply Plans shall be substantially consistent across all business divisions unless exceptions are required by state commissions which are noted state-by-state in this procedure.

- The supply plan should be stated in MMBtu or Dth depending on the unit of measurement the delivering pipeline utilizes.
- Quantities are stated net of pipeline fuel (retainage).

Supply Plans should include the following components to effectively manage the supply system:

- **Monthly total estimated system requirements** for each integrated pipeline(s) system (total thru-put of the system).
- **Net monthly system requirements** to be sourced from storage and/or purchases (requirements less transportation customer quantities).
- **Monthly estimated storage injections/withdrawals** to cycle storage and refill to approximately 95% by October 31st of each year.

- **Net monthly purchase** requirements including storage activity (storage withdrawals subtracted from net monthly system requirements and storage injections added to the monthly system requirements.)
- **Optional – pipeline fuel retainage quantities** may be calculated and added to net monthly purchase quantities.

Supply Plans are used for two basic purposes as described below:

Non Asset Management – The supply plan is developed to be utilized as a tool to source the purchase requirements; a guide in managing storage levels throughout the withdrawal and injection periods; and a tool to determine the first of month nominations. Incremental purchases can be made to stay within the guidelines of the plan during the current month.

Asset Management – This supply plan is used in the same manner as the Non-Asset Plan stated above. The primary difference is payment is actually made to the supplier for the plan purchases including pipeline retainage fuel. Storage quantities are determined by calculating the difference between the plan purchases and the actual net system requirements.

This plan storage balance may differ from physical storage balance resulting from the storage flexibility provided to the supplier for this type supply arrangement. Contractual provisions shall provide for plan and physical storage balances to be as close as practicable by the end of the contractual term and provisions to settle up any differences.

Request for Proposal (RFP) Process

Effective January 1, 2007

This Request for Proposal (RFP) Process incorporates multiple related Procedures utilized in the procurement of gas supply and services. These processes and procedures provide as much standardization as possible across the Business Divisions in gas supply and procurement services. In instances where state jurisdictions differ from the processes and procedures detailed below or additional requirements are required by states.

The specific processes and procedures included as a part of this overall RFP Process are as follows:

- RFP Flow Procedure
(depicting preparation / approval / recommendation / contracting)
- Supplier List and Qualification Procedure
- RFP Procedure and "Sample" RFP Letter
- Bid Evaluation and Documentation Procedure

The Gas Supply Specialist shall maintain a complete file documenting the RFP process for each RFP to ensure that all actions under the procedures listed above are fully documented.

RFP Flow Procedure
(preparation, approval, evaluation, contracting)
Effective January 1, 2007

Request for Proposal Submittal

The assigned Gas Supply Specialist will obtain the most recent supply requirements estimate from the Planning Analyst. The estimate provided will be total requirements less estimated transportation customers' usage, stated monthly. This estimate will be utilized by the Gas Supply Specialist in the preparation of the RFP letter, development of the Supply Plan, and the bid evaluations. RFPs are generally requested for a term of one (1) year, though shorter (seasonal) or longer (multi-year) requirements may also be submitted. Supply requirements are determined for baseload, swing, and storage (planned injection/withdrawal) requirements. An RFP can cover all or any part of these specific requirements. The respective Gas Supply Specialist will discuss with department management their recommendation of the details under which the RFP should be issued, including specific supply, term, and response requirements.

The RFP letter will be drafted by the Gas Supply Specialist and if required by regulation, submitted and/or reviewed with the appropriate Business Division VP, Rates and Regulatory Affairs for any regulatory guidelines and to ensure regulatory compliance.

The Gas Supply Specialist sends the RFP letter to suppliers on the appropriate active Supplier List. The Gas Supply Specialist responds to any questions regarding the RFP letter as described in the RFP Procedure of this RFP Process.

Bid Receipt and Evaluation

Bid proposals will be sent to the Gas Supply Specialist that issued the RFP and the Gas Supply Specialist will proceed with the RFP Flow Procedure as follows:

- Receive bid proposals and log date received to ensure bid deadline stated in the RFP letter has been met
- Ensure that bids are not opened until after the deadline stated in the RFP letter has expired
- Enlist the Manager or the Manager's designee to be present during the opening and initial review of the proposals
- Review proposals in more detail to ensure compliance with RFP request

The Gas Supply Specialist completes the evaluation adhering to the Bid Evaluation Procedure included as a part of this RFP Process.

Upon completion of the RFP evaluation, the Gas Supply Specialist forwards the evaluation and recommendation to the Regional Manager for approval of recommendation. The AEC Vice President of Rates and Regulatory Affairs is notified of the evaluation and winning bidder prior to the deal being awarded, and signs the recommendation page indicating approval.

After approval has been granted and the proper initials or signature (or email approvals) has been obtained on the bid recommendation and approval sheet similar to the included "Sample Bid Recommendation and Approval Memo", the Gas Supply Specialist will notify the supplier verbally, followed by a written correspondence (email is sufficient). Non-winning bidders are notified that the RFP has been awarded to another supplier (details are kept confidential).

Contracting

The RFP Process shall commence to allow for sufficient time to finalize and have an executed transaction confirmation prior to the effective date of the deal.

The Gas Supply Specialist will be responsible for the following:

- Coordinates with Gas Supply management, Contract Administration, and Supplier satisfactory terms and conditions of the contract or NAESB addendum

- Ensures proper pricing and business deal provisions included in contract or addendum
- Coordinates contract execution with Contract Admin
- Prepares any regulatory filing requirements for the AEC Vice President Rates and Regulatory Affairs

Supplier List and Qualification Procedure

Effective January 1, 2007

A list(s) of active suppliers is compiled and maintained within the Gas Supply for each Business Division for use in the RFP bid process for the Business Division's pipeline systems, and for day to day spot purchase requirements.

The active Supplier List will contain current data to include supplier representative, address, phone numbers, email address and fax numbers.

The suppliers included on the active Supplier List shall be kept current in the following manner:

- Inform suppliers in the Request for Proposals (RFP) letter that should they elect not to bid in the current RFP that they should advise the Company that they are not submitting a proposal but would like to stay on the Supplier List for future RFP's. Otherwise, they will be removed from the active Supplier List for that specific system.
- Suppliers may be added either at the request of the supplier and meeting the minimum supplier qualifications as detailed below or by satisfactory business association in Atmos' other operating areas.

Minimum supplier qualifications:

- Own or control (right to sell) sufficient supply in the appropriate pipeline area to meet the Company's needs (supply warranty).
- Have a strong reliable performance record with the Company, or be willing to accept the Company's contractual terms to ensure reliability
- For companies new to the list, references which can be contacted to provide information on the vendor's past performance with them.
- Have a strong financial position capable of meeting the necessary financial requirements set by the Company (specifically with agency agreements).

To determine recent financial qualification prior to awarding a bid, the gas supply specialist may request the Company's Treasury and/or Accounting Departments to assist in the evaluation of a requested D&B Report and inform them of their findings and/or recommendations.

Request for Proposal ("RFP") Procedure

Effective January 1, 2007

Revised October 24, 2008

The Request for Proposal ("RFP") Procedure is the process by which Atmos solicits qualified suppliers in the marketplace for the best cost gas supplies to provide for each Business Division.

Though details of the RFP process can vary somewhat between Business Divisions or specific locales, they are all similar in some aspects. The following should be included in the Request for Proposal (RFP) letter or attached in accordance with the RFP Process Flow Procedure, the Supplier List and Qualification Procedure, and the Bid Evaluation Procedure:

- Commodity only RFP: A summary of supply requirements (volumes) and purchase conditions (firm, interruptible, swing, etc.) to be included in or attached to the RFP letter.
- Agency or Asset Management RFP: In addition to volume information, an agency RFP will provide detail of pipeline contracts (daily/seasonal quantities, receipt/delivery points, restrictions, etc.); storage detail also to be provided stating operating parameters (maximum seasonal/daily quantities, ratchet provisions, etc.)
- An RFP letter is drafted, reviewed, and approved by management in compliance with the RFP Flow Procedure which specifies all terms and conditions under which the Business Division is requiring supply and/or agency, the terms under which the supplier must adhere to in their response, including response deadlines and methods (fax, email, regular mail, etc.) which the vendor must use to submit their proposals.

Additional items the RFP letter may contain, but is not limited to, are as follows:

- ✓ Jurisdiction for which the RFP is being issued under,
- ✓ Schedule of volumes, by supply category (i.e., baseload vs. swing) which a bid is being requested,
- ✓ If applicable, for agency or asset management arrangements, additional information shall be provided, detailing parameters of agency or asset management, contract MDQs, storage detail, constraints, warranties required from Agent, unwinding language to determine settling imbalance at end of deal, obligation of agent, etc.
- ✓ If applicable, special circumstances surrounding the delivery / receipt of supply to / by the Business Division

- ✓ Terms which the proposal is to be made (i.e. specific pricing provisions, firm/interruptible etc.)
- ✓ The pricing methodology acceptable for submitting bids
- ✓ The right to reject any or all proposals
- ✓ Include language informing the suppliers that they should inform the Gas Supply Specialist if they are electing not to bid but would like to remain on the active bid list.
- ✓ Inform suppliers that any additional informational requests relating to the RFP shall be in written form (fax, email, etc.) and that the request and the information provided will be distributed to all parties on the bid list; however, the requesting party will not be identified to others.
- ✓ The deadline by which the response is to be made, and the method in which it is to be transmitted
- ✓ The amount of time a bid is to remain valid, so that the analyst can analyze each proposal received.

Upon finalizing an approved RFP letter, the document is then sent by courier to the RFP supplier listing for that area. The time and method of each transmittal is then recorded and compiled in a file, which will be maintained by each RFP issued.

"Sample RFP Letter"

ATMOS ENERGY CORPORATION GAS SUPPLY REQUEST FOR PROPOSAL FOR NATURAL GAS SUPPLY TO TENNESSEE AND VIRGINIA SERVICE AREAS February 20, 2004

1.0 RFP Overview

Atmos Energy Corporation ("Atmos") is seeking proposals from qualified suppliers to provide firm and warranted natural gas commodity requirements for its Tennessee and Virginia service areas. The term of the agreement will commence on April 1, 2004 and continue through March 31, 2005. Specifics of the pipelines which serve Atmos are detailed below and in the accompanied Exhibits. Essentially, Atmos is seeking firm, natural gas commodity only supply for daily flows up to its maximum firm capacity rights on all described pipeline split into baseload and swing components.

ALL PROPOSALS MUST BE PREPARED IN ACCORDANCE WITH RFP REQUIREMENTS AND MUST BE RECEIVED IN WRITTEN FORM BY 12:00 Noon, Friday March 5, 2004.

2.0 RFP Communication

Any reasonable request, at Atmos' sole discretion, for additional information not contained in this RFP is required in writing and will be provided to all parties receiving this RFP. The identity of the party requesting additional information will not be divulged. All requests for additional information to be used in your analysis should be submitted in writing via e-mail to deborah.sparkman@atmosenergy.com. Any proposal clarification requested by Atmos and the response by the Bidder shall be in writing. During the RFP process, Atmos will not entertain any individual meetings with Bidders relating to this RFP until such time that the RFP has been awarded.

Please advise if not submitting a proposal at this time. Otherwise, it will be assumed that your company should be removed from this bid list for future Requests for Proposals for this area. Atmos reserves the right to reject any and all bids

3.0 Background

Service Area I – "Western Tennessee Service Area" (Union City, Tenn.) served by Texas Gas Transmission.

Service Area II – "Middle Tennessee Service Area" (Columbia, Murfreesboro and Franklin, Tenn. areas) The pipelines serving this area are 1) Texas Gas Transmission, 2) Columbia Gulf Transmission, and 3) Texas Eastern Transmission.

Service Area III – "East Tennessee/Virginia Service Area" consists of the (ETN-Johnson City, Kingsport, etc. areas and Virginia service areas, as far north as the Blacksburg/Radford areas.) The pipelines serving this area are 1) East Tennessee and 2) Virginia Gas

Upstream of our Service Areas, Atmos holds firm transportation on Tennessee Gas Pipeline and Columbia Gulf Transmission.

Our annual purchase requirements are approximately 20 Bcf. Approximate historical purchase volumes and typical storage injection and withdrawal volumes are also provided to assist you in the preparation of your proposal. These volumes are informational only and may or may not be indicative of future requirements. (See Exhibit for further details.)

4.0 Supply Requirements

All bidders are subject to proof of performance experience, creditworthiness and financial strength commensurate with this type and term of arrangement. Non-performance remedies as well as other terms and conditions will be negotiated and included in the agreement between the parties.

Suppliers may use any alternate receipt points on each pipeline to supply gas, but supplier is responsible for incremental transport charges as a result of alternate points. Also, supplier must be able to provide gas at primary receipt points when secondary points are curtailed.

5.0 Proposal Content

The following information is required to be considered responsive to this RFP unless the proposing entity can clearly demonstrate that such information is not applicable to its circumstance. Any additional information that the supplier considers useful for Atmos to evaluate its proposal will be considered. Atmos may request additional information at a later date to assist in the decision making process.

5.1 Respondent Information

- Name and address of supplier
- Name, phone and fax number of contact person for this proposal
- Current annual report
- Evidence of supplier's knowledge and experience in providing service proposed
- Evidence of the supplier's financial viability to provide the service proposed
- Business references

5.2 Description of Proposal

Each proposal should provide a description of supply and the price which the supplier is willing to contract for and all other pertinent information. The response should present firm and warranted commodity sales based upon the pricing methodology described in section "5.3 Pricing". Additionally, a summary of the amount of equity gas owned or controlled by the bidder, and other supply data should be provided.

Atmos will nominate baseload gas supplies within two working days before the beginning of any month. Monthly purchase volumes will be confirmed by and based on actual receipts by the transporting pipeline.

5.3 Pricing

Proposals must be submitted with a commodity price equal to, plus (+), or minus (-) the simple arithmetic average of the indices "basket" listed below, to establish a per unit price, per applicable pipeline.

- 1) **Inside FERC Gas Market Report** first-of-the-month posting for the appropriate pipeline and receipt zone,
- 2) **Natural Gas Intelligence**, Bidweek, as published in the first issue each month for the appropriate pipeline and receipt zone,
- 3) The Nymex settled closing price for the applicable month.

Incremental purchases, in excess of the baseload purchase volumes, would be at a price equal to, plus (+), or minus (-) the appropriate Gas Daily Average index price which may or may not include a demand component (Bidders Option).

Intraday purchases will be priced by seller at a mutually agreeable price to buyer and confirmed at time of purchase.

5.4 Reliability

All gas supply is to be **firm and warranted** assuring that natural gas supply services will meet all contractual obligations without fail.

6.0 Evaluation Criteria

Proposals will be judged on respondent's ability to meet the economical and reliable natural gas needs of Atmos. The principal criteria to be used are as follows: Total delivered cost of gas supply over the term of the contract, reliability of the supply, and the financial viability of the respondent. Atmos has the right to consider any other factors that may be relevant to its gas supply needs.

7.0 Evaluation Duration

The Bidder shall be prepared to leave the proposal open for a five (5) business-day evaluation period after the submittal deadline.

8.0 Proprietary Data in Proposal

A proposal may include data which the respondent does not want disclosed to the public or used by Atmos for any purpose other than proposal evaluation. Reasonable care will be exercised so that proposal data is not disclosed or used without the respondent's permission, except to meet regulatory filing requirements. Such data filed for regulatory requests shall be filed as confidential information.

9.0 Rejections of Proposal

Atmos reserves the right to reject any or all proposals and to re-solicit for proposals in the event that all proposals are rejected. Any proposal may be modified prior to the submittal deadline by written request of the Bidder.

10.0 Submittal Instructions

Proposals must be received via U.S. Mail, Courier Service or hand delivered in a sealed envelope marked as indicated below on or before March 5, 2004 at 12:00 p.m. CST. No other method will be accepted. No proposal will be opened prior to the stated deadline. The proposals received after the stated deadline will be returned unopened.

Proposals should be marked externally as "Proposal for Natural Gas Service (Tennessee/Virginia)" and mailed to:

Atmos Energy Corporation
377 Riverside Dr., Suite 201
Franklin, TN 37064
Attn: Deborah Sparkman

Bid Evaluation and Documentation Procedure

Effective January 1, 2007

A bid evaluation / documentation file shall be set-up for each RFP submitted. Both a hard copy file and a electronic file (for all items possible) should be developed and maintained throughout the evaluation process. This will provide for efficient and accurate responses to future Data Request from the state commissions.

The evaluation / documentation process file shall include the following:

- A copy of the RFP letter and all attachments that were included
- A copy of any questions or requests for clarification from suppliers and a copy of the Company's response that was sent to all suppliers provided with the RFP letter.
- A table reflecting the following:
 - The Business Division and Pipeline reflected in the RFP
 - The term that is requested under the RFP
 - List of suppliers that the RFP letter was sent
 - Suppliers that submitted a proposal
 - Proposals returned due to late bids
 - Rejected for non conforming proposals
 - Suppliers that did not submit a proposal but requested to stay on active suppliers list

After the bid deadline each individual proposal must then be analyzed in contrast to the other proposals. This is done by calculating the differentials between each proposal against some purchase standard, usually a supply plan. Careful attention must be paid to different proposed pricing points, demand charges, flexibility, and cost. As a general rule, the vendor proposing the least cost offer is recommended to management as the winning bid, though there can be exceptions to this. Exceptions can include the downgrading of a vendor's financial status from the time the RFP was issued, issues concerning reliability and operational issues. Once management has approved a recommendation, the winning bidder is notified by written (email) and verbal notice of the Company's acceptance of their offer. Confirmation of the vendor's receipt and acknowledgement of the Company's acceptance must also be done in writing (email). All non-winning bidders will be notified verbally.

- An evaluation spreadsheet calculating the total premium or discount for each proposal as compared to the appropriate indices for the particular supply area

- All assumptions are clearly stated on the evaluation spreadsheet
- All indices that are used to calculate the premium or discount on the evaluation spreadsheet shall be the same index or adjusted to the appropriate index (basis difference)

"Sample Bid Recommendation and Approval Memo"

Atmos Energy Corporation
October 6, 20XX

Recommendations for Atmos Energy Corporation November 1, 20XX – March 31, 20XX Winter Gas Supply Requirements in Kansas Submitted for Review October 6, 20XX

Atmos Energy Corporation (AEC) issued a Request for Proposal (RFP) to solicit proposals for winter gas supply requirements on Kinder Morgan Interstate Pipeline (KMI) effective November 1, 20XX through March 31, 20XX.

RFP's were issued to nineteen (19) potential suppliers. AEC received proposals from four (4) suppliers and four (4) suppliers declined to submit a proposal, but requested to remain on the Bid List. Bids were received from the following:

Supplier 1
Supplier 2
Supplier 3
Supplier 4

Follow up questions were asked of Select suppliers about their bid and based on inconsistencies and vagueness concerning the firm delivery of gas, their bid was not considered. In the review of the bids given, Supplier 3 presented the best bid for baseload and swing gas. Their proposal allows for a \$.01 premium on first of the month index for Southern Star and \$.01 also for swing gas at the Gas Daily midpoint price on Southern Star. In the event Supplier 3 must source the gas from Huntsman Storage the premium will change to \$.20. Historically we have not had to use that option.

Based on our review it is recommended that Atmos accept Supplier 3's proposal for the Kinder Morgan Pipeline.

Submitted By:

Gas Supply Specialist
Atmos Energy Corp.

Approved By:

Manager, Regional Gas Supply
Atmos Energy Corp.

Final Approval:

Vice President

Affiliate Relationship Procedures

Effective January 1, 2007

Revised October 25, 2007

Purpose:

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

RFP Process:

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

General:

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

Affiliate Guidelines:

In the event a state has specific guidelines for affiliated transactions, it is the Gas Supply Specialist's responsibility to know and follow those guidelines.

Updating Manual Policy

Effective January 1, 2007

Revised October 25, 2007

Purpose:

The purpose of this policy is to ensure that the Gas Supply Manual contains current and updated information. There is no need for a manual if the manual is not maintained. The goal of the manual is to serve as a reference guide for not only existing employees but new employees as well.

Responsibility:

Each Manager Regional Gas Supply will be responsible for maintaining the manual and updating any information to insure that the manual is current and updated. A Manager may designate another employee to maintain the manual, but that Manager is still ultimately responsible.

Review:

The Gas Supply Manual will be updated whenever a change occurs. Examples of changes would be a new hire, a change in a policy, etc. Each Manager will review the manual on an annual basis and will make any necessary changes.