

Exhibit No.:  
Issue: Prudence of gas costs and Affiliated  
Transaction Rules  
Witness: Rebecca Buchanan  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Atmos Energy Corporation  
Case No.: GR-2008-0364  
Date Testimony Prepared: June 14, 2010

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: GR-2008-0364**

**REBUTTAL TESTIMONY**

**OF**

**REBECCA BUCHANAN**

**ON BEHALF OF**

**ATMOS ENERGY CORPORATION**

**Franklin, Tennessee  
June, 2010**

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

**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 Rebuttal Testimony on behalf of Atmos Energy Corporation consisting of fourteen (14) pages and Schedule(s) N/A through N/A, 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 11 day of June 2010.

Ronnie Myatt  
Notary Public

My commission expires: JUNE 20, 2011



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

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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.    DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET GR-2008-0364?**

5    A.    Yes.

6  
7    **Q.    HAVE YOU REVIEWED THE DIRECT TESTIMONY STAFF WITNESS DAVID  
8    M. SOMMERER?**

9    A.    Yes.

10   **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11   A.    The purpose of my rebuttal testimony is to discuss how Atmos Energy Corporation  
12   ("Atmos" or "Company") has complied with the requirements of the Affiliate  
13   Transaction rules. I will respond to certain questions and address hypothetical concerns  
14   raised by Mr. Sommerer in his direct testimony regarding the bids awarded to Atmos  
15   Energy Marketing ("AEM"). I will show that the facts do not support a finding that  
16   awarding contracts to AEM is imprudent and that Mr. Sommerer's testimony has not  
17   raised any serious doubts about the prudence of the actual gas costs incurred.

1   **Q.   WHAT ARE THE MAJOR CONCERNS RAISED BY MR. SOMMERER IN HIS**  
2   **DIRECT TESTIMONY?**

3   A.   In his testimony, Mr. Sommerer has characterized the Affiliate Transactions rules as  
4   having additional requirements that are not explicitly or implicitly articulated in the  
5   Commission's Affiliated Transaction Rules (4 CSR 240-40.015 and 4 CSR 240-  
6   40.016)(hereafter the "Rules") or statutes. Mr. Sommerer asserts that affiliate  
7   transactions require greater scrutiny because they are not arms-length transactions. He  
8   also provides various hypothetical situations in which acceptance of AEM's bid would  
9   have been an imprudent decision, but fails to offer any evidence that these situations in  
10   fact took place. Further, Mr. Sommerer does not demonstrate how these hypothetical  
11   situations are more likely to occur with respect to an affiliated gas supplier than a non-  
12   affiliated gas supplier.

13  
14                   **AFFILIATE TRANSACTIONS RULES**

15   **Q.   ARE YOU FAMILIAR WITH THE COMMISSION'S AFFILIATE**  
16   **TRANSACTIONS RULES?**

17   A.   Yes, I am.

18   **Q.   PLEASE DESCRIBE THE BASIC REQUIREMENTS OF THE RULES.**

19   A.   The Rules state that "When a regulated gas corporation purchases information, assets,  
20   goods or services from an affiliated entity, the regulated gas corporation shall either  
21   obtain competitive bids for such information, assets, goods or services or demonstrate  
22   why competitive bids were neither necessary or appropriate." (4 CSR 240-40.015(3)(A).  
23

1    **Q.    DID ATMOS OBTAIN COMPETITIVE BIDS FOR ITS GAS SUPPLIES?**

2    A.    Yes. The Company has fully complied with this requirement of the rule.

3    **Q.    ARE THERE OTHER RELEVANT ASPECTS OF THE RULES?**

4    A.    Yes. The Affiliate Transactions rules state that the utility "shall not provide a financial  
5           advantage to an affiliated entity." The rules also state that the utility "shall conduct its  
6           business in such a way as not to provide any preferential service, information, or  
7           treatment to an affiliated entity over another party at any time."

8    **Q.    DO THE RULES EXPLAIN WHAT IS MEANT BY THE TERM "FINANCIAL  
9           ADVANTAGE"?**

10   A.    Yes. A financial advantage would occur if the utility compensated an affiliate at a rate  
11           that is above the lesser of the fair market price or the fully distributed cost ("FDC") to the  
12           utility. The rules further specify that the FDC means a methodology that examines all  
13           costs of an enterprise in relation to all the goods and services that are produced, including  
14           a recognition of all costs incurred directly or indirectly including a general allocation of  
15           any costs that could not be directly assigned or indirectly allocated. The Rules do not  
16           specify that a profit constitutes a financial advantage.

17   **Q.    HAS ATMOS EXAMINED THE FULLY DISTRIBUTED COST TO PROVIDE  
18           THOSE GAS SUPPLIES TO ITSELF?**

19   A.    Yes. As I explained in my direct testimony, Atmos Energy Corporation does not have  
20           the in-house capability to provide the gas marketing services that AEM and other gas  
21           marketers provide to Atmos. For example, Atmos does not have sufficient personnel  
22           with the in-house expertise to perform the gas marketing services that AEM and other  
23           marketers provide to Atmos. Atmos does not have personnel experienced in obtaining

1 gas supply from producers of natural gas, trading on the physical and financial markets,  
2 or arranging for transportation services from upstream suppliers. In order to provide  
3 these types of services to the Missouri areas of Atmos, the Company would need to incur  
4 substantial cost and develop many processes already utilized by gas marketers for  
5 securing such gas supplies and transportation services in the interstate market. Further,  
6 Atmos would be entitled to include these additional expenses in its cost of service upon  
7 which its rates are based and earn a reasonable return on any capital investment related to  
8 these services. Based upon these facts, Atmos has determined that the Fully Distributed  
9 Cost of providing these gas services to itself would exceed the market price of those gas  
10 supplies. Therefore, Atmos believes it is more prudent to solicit proposals from gas  
11 marketers through a competitive bidding process to provide these necessary services in  
12 the most cost-effective manner.

13 **Q. BASED ON YOUR UNDERSTANDING OF HIS TESTIMONY, WHY DOES MR.**  
14 **SOMMERER BELIEVE THAT THE FULLY DISTRIBUTED COST TO ATMOS**  
15 **IS LESS THAN THE FAIR MARKET PRICE?**

16 A. In his testimony, Mr. Sommerer makes the flawed assumption that if AEM is able to  
17 procure gas supply at a certain price, then the regulated utility must also have similar  
18 access to gas supply at that same price without any additional overhead. Thus, he  
19 concludes, the utility could provide its own gas supply at a lesser rate without contracting  
20 with the affiliate.

21 **Q. WHY DO YOU CALL THIS ASSUMPTION FLAWED?**

22 A. Mr. Sommerer's assertion overlooks two crucial facts. First, he ignores the additional  
23 costs that the utility would incur in terms of personnel and processes necessary to provide

1 gas marketing services that AEM and other marketers provide to Atmos. Second, Mr.  
2 Sommerer overlooks the fact that gas marketers, both affiliated and non-affiliated, have  
3 greater purchasing power than regulated utilities by virtue of the fact that they may  
4 bundle their purchases into a comprehensive portfolio of business that can include non-  
5 utility customers. The utility does not have the ability to take advantage of similar  
6 efficiencies of scale. The fair market value that a utility can obtain in the natural gas  
7 markets is simply not the same as the fair market value that AEM can obtain in the  
8 natural gas market.

9 **Q. HAS ATMOS PROVIDED ANY PREFERENTIAL INFORMATION OR**  
10 **TREATMENT TO AEM?**

11 A. No. As I explained in my direct testimony, AEM receives identical information and  
12 treatment as other bidders in the Request for Proposal ("RFP") competitive bidding  
13 process.

14 **Q. DO THE AFFILIATE TRANSACTIONS RULES PROHIBIT AN AFFILIATE**  
15 **FROM MAKING A PROFIT ON A TRANSACTION WITH THE REGULATED**  
16 **UTILITY?**

17 A. No.

18 **Q. IF THE REGULATED UTILITY PROVIDED GAS SUPPLY SERVICES TO**  
19 **ITSELF, WOULD THE UTILITY EARN A PROFIT?**

20 A. Yes. While Mr. Sommerer correctly notes that gas costs are passed through to ratepayers  
21 with no markup, he does not take into account the fact that additional Company personnel  
22 and resources that would be necessary to provide such gas supply. The additional  
23 expenses would be included in the Company's cost of service, and the utility is permitted

1 to recover prudent expenses and earn a reasonable return on any capital costs associated  
2 with these services.

3 **Q. IF A NON-AFFILIATE MARKETER PROVIDED THESE SERVICES TO**  
4 **ATMOS, WOULD IT EARN A PROFIT?**

5 A. I can only assume that a gas marketer would not participate in the RFP process unless it  
6 had determined that it would profit from the transaction.

7 **Q. DO THE AFFILIATE TRANSACTIONS RULES MODIFY THE BURDEN OF**  
8 **PROOF IN THIS CASE?**

9 A. No, 4 CSR 240-40.015(6)(C) specifically states that the rule does not modify existing  
10 legal standards regarding which party has the burden of proof in Commission  
11 proceedings.

12 **Q. WHAT IS YOUR UNDERSTANDING OF THAT BURDEN OF PROOF?**

13 A. The Commission has stated that the proponent of a gas cost adjustment must raise a  
14 "serious doubt" as to the prudence of the decision that caused what the proponent is  
15 alleging to be excessive gas costs. Although Mr. Sommerer's testimony raises a number  
16 of hypothetical concerns about the transactions between Atmos and AEM, he does not  
17 provide any evidence that Atmos was imprudent in the administration of its competitive  
18 bidding process or decision to accept the lowest bid produced by that process.

19  
20 **ARMS-LENGTH TRANSACTIONS**

21 **Q. DID YOU FIND THE TERM "ARMS-LENGTH" IN THE COMMISSION'S**  
22 **AFFILIATE TRANSACTIONS RULES?**



1 A. No. I was not able to find the term "arms-length" in the rule or statutes. During  
2 discovery, Atmos requested that Mr. Sommerer provide a reference on which he relied to  
3 define "arms-length" but he did not provide any definitions or supporting references.  
4 Instead, Mr. Sommerer referred only to his general knowledge and the "typical  
5 recognition" that transactions involving related parties cannot be *presumed* to be carried  
6 out on an "arm's-length basis, as the requisite conditions of competitive, free-market  
7 dealings *may* not exist." (*emphasis added*)

8 **Q. DOES MR. SOMMERER'S EXPLANATION COME FROM THE**  
9 **COMMISSION'S AFFILIATE TRANSACTION RULES?**

10 A. No. Further, the passage provided does not explain what is meant by an "arm's-length  
11 basis." However, the utility's open and competitive bidding process, as approved by the  
12 Commission, supplies the conditions required for competitive, free-market dealings. The  
13 fact is, one of the primary purposes of the Rules is to provide a framework to ensure that  
14 the utilities' transactions with affiliates do not provide an undue preference or advantage  
15 to an affiliate. The Staff has failed to provide any evidence that the Company has not  
16 complied with the requirements of the Rules.

17 **Q. DOES HE OFFER ANY EXPLANATION IN HIS TESTIMONY REGARDING**  
18 **WHY HE DID NOT BELIEVE THE TRANSACTION TO BE "ARMS-LENGTH"?**

19 A. In his direct testimony, Mr. Sommerer makes the statement that "AEM and Atmos share  
20 limited resources on access to liquidity and counterparty credit exposures."

21 **Q. IS THIS A TRUE STATEMENT?**

22 A. No. Atmos and AEM do not commingle regulated and unregulated funds. Separate cash  
23 accounts are maintained for each entity. Additionally, Atmos and AEM maintain their

1 own independent credit facilities to support their individual businesses and each has their  
2 own separate procedure for management of credit risk.

3 **Q. DOES MR. SOMMERER OFFER ANY OTHER REASONS WHY HE BELIEVES**  
4 **THE TRANSACTION IS NOT AT ARMS-LENGTH?**

5 A. Mr. Sommerer also implies that the Company's compensation structure provides an  
6 incentive to choose the affiliate in order to maximize shareholder profits, and in turn,  
7 maximize incentive compensation to those involved in the decision-making process.

8 **Q. DOES THIS MAKE SENSE?**

9 A. No. While it is true that consolidated earnings per share ("EPS") is the benchmark used  
10 in the Company's incentive compensation programs, an employee must first be able to  
11 demonstrate competent performance of their job duties prior to becoming eligible for  
12 incentive compensation. With respect to the Gas Supply function, competent  
13 performance includes substantial compliance with Company policies and procedures such  
14 as those included in the Gas Supply & Services Manual ("Manual") as well as with  
15 applicable regulatory law. The Manual provides the method by which bids are  
16 evaluated. As a general rule, the vendor providing the lowest cost offer is recommended  
17 as the winning bid unless operational, reliability, or financial concerns exist. In this  
18 review, none of these concerns existed.

19 Further, assuming for argument's sake that Mr. Sommerer's calculations are correct, he  
20 contends that the gas supply deals under review provided an approximately \$363,000 in  
21 additional gross profit to earnings. This amount, which has not been netted for any  
22 associated administrative expense, represents less than one half of one percent of the net  
23 income for the overall enterprise in fiscal year 2008. To state that another way, the

1 transactions that are the subject of this review did not materially increase the Company's  
2 EPS.

3 **Q. WHAT WOULD HAVE BEEN THE RESULT HAD THE UTILITY ELECTED**  
4 **TO EITHER PROVIDE ITS OWN GAS SUPPLY OR SELECT THE BID OF A**  
5 **NON-AFFILIATED SUPPLIER?**

6 A. As I explained previously, had the utility provided its own supply, it would have been  
7 able to recover the overhead costs incurred to provide that supply. This recovery would  
8 have contributed to the Company's EPS in a manner similar to that described above. The  
9 other alternative, accepting another supplier's bid, would have resulted in higher gas  
10 costs for ratepayers.

11 **Q. DOES MR. SOMMERER'S PROPOSED ADJUSTMENT TAKE INTO**  
12 **ACCOUNT THAT AEM ALSO HAS OVERHEAD, INCLUDING PERSONNEL**  
13 **AND CAPITAL COSTS, IN ORDER TO PROVIDE GAS SUPPLIES TO ATMOS?**

14 A. No. Mr. Sommerer's proposed adjustment imputes the "gross profits" of AEM to the  
15 Company. He apparently ignores the fact that AEM also has overhead that must be  
16 recovered before AEM can make a "profit".

17 **Q. ARE THERE OTHER FLAWS IN MR. SOMMERER'S CALCULATIONS OF**  
18 **AEM'S "PROFITS"?**

19 A. Yes. Mr. Sommerer's calculation only takes into account the price of gas purchased by  
20 AEM against the price of gas sold to the utility. When making his recommendation for  
21 disallowance, Mr. Sommerer has failed to consider any of AEM's administrative and  
22 general costs to provide gas marketing services to the utility. Even if you can accept his  
23 argument that a utility should be compelled to reduce its recoverable gas costs by any

1 profit made by its affiliate, the schedule Staff provides to support the disallowance does  
2 not accurately state the level of net income earned by AEM on the gas supply deals under  
3 review because it is missing an important piece of the calculation.

#### 4 5 **SUPPLY RELIABILITY**

6 **Q. DOES MR. SOMMERER VOICE ANY OTHER SUSPICIONS ABOUT THE**  
7 **INTEGRITY OF THE COMPETITIVE BIDDING PROCESS?**

8 A. In both his testimony and responses to subsequent discovery, Mr. Sommerer expresses  
9 concern that the competitive bidding process may not lead to a fair market value. He  
10 raises several hypothetical scenarios and provides conjecture about the reliability of the  
11 gas supply provided by AEM to the utility. Mr. Sommerer characterizes the "true"  
12 market value as being less than what is determined in the open competitive bidding  
13 process if the winning bidder should use interruptible or spot gas supplies with  
14 interruptible transportation to fulfill its obligations to the utility.

15 **Q. DOES MR. SOMMERER PROVIDE ANY EVIDENCE TO SUPPORT THESE**  
16 **SUSPICIONS?**

17 A. No. He does not articulate any basis for a belief that AEM, in fact, engaged in this  
18 behavior. Instead, he raises several questions that are equally applicable to non-affiliated  
19 suppliers. Mr. Sommerer does not explain how or why an affiliated gas supplier would  
20 be more incentivized to behave in a riskier fashion than a non-affiliated gas supplier.  
21 Likewise, he does not explain why, if it engages in such behavior, AEM does not have  
22 the winning bid in every instance. In fact, given Mr. Sommerer's position that the  
23 affiliate and the regulated utility must be working in concert to maximize the Company's

1 EPS, it is counterintuitive to also believe that the affiliate would place the utility's gas  
2 supply at risk, which would result in poor regulatory and financial outcomes for the  
3 Company.

4 **Q. DOES MR. SOMMERER RAISE ANY RELIABILITY CONCERNS THAT ARE**  
5 **UNIQUE TO AEM?**

6 A. No. In his testimony, Mr. Sommerer asks if the AEM suppliers are the same suppliers  
7 that lost the bid in the original RFP process. The same inquiry could be made of any  
8 non-affiliated marketer. Atmos does not have information on any of its bidders'  
9 upstream suppliers or transportation, but requires all winning bidders to provide the  
10 service specified in the applicable RFP. Mr. Sommerer then wonders why an AEM  
11 supplier would not participate in the original RFP process, and whether or not they are on  
12 Atmos' "approved list" or AEM's "creditworthy counterparty list." These, too, are  
13 unknown to the utility for all participants in the competitive bidding process. Finally,  
14 Mr. Sommerer makes the broad assertion that "Affiliate suppliers are capable of taking  
15 risks and opportunities not available to unaffiliated suppliers." Without any further  
16 explanation or supporting evidence, I can neither ascertain the meaning of this statement  
17 nor envision a circumstance where this is, in fact, the case.

18 **Q. WAS THE SUPPLY PROVIDED BY AEM TO ATMOS DURING THE ACA**  
19 **REVIEW PERIOD EVER, IN FACT, INTERRUPTED?**

20 A. No.

21 **Q. HAS MR. SOMMERER EXPRESSED AN OPINION ABOUT WHEN IT WOULD**  
22 **BE PRUDENT FOR ATMOS TO AWARD A CONTRACT TO A MARKETER**  
23 **THAT DID NOT PROVIDE THE LOWEST BID?**

1 A. Yes. In a response to a discovery request, Mr. Sommerer outlined several hypothetical  
2 situations where it may be appropriate for the utility to accept a bid even if it was not the  
3 lowest bid. His examples included cases where the counterparty became un-  
4 creditworthy, cases where the utility has knowledge that a bidder was dealing with un-  
5 creditworthy counterparties, and cases where the affiliate was consistently winning the  
6 bids, for the sake of supply diversity.

7 **Q. WERE ANY OF THESE THE CASE FOR THE 2007-2008 ACA PERIOD?**

8 A. No. In accordance with the Manual, all winning bidders in the RFP process started out  
9 and remained creditworthy during the bidding process. Further, the utility did not have  
10 any knowledge that any of the bidders' respective counterparties were un-creditworthy.  
11 Finally, although to my knowledge "supply diversity" is not a Commission requirement,  
12 AEM has not dominated the RFP process by consistently winning bids. This is clearly  
13 illustrated by confidential Attachment 2 to my direct testimony which shows the history  
14 of successful bidders.

15 **Q. DO YOU AGREE WITH THE ASSERTION ON PAGE 10, LINES 16-17 OF MR.**  
16 **SOMMERER'S DIRECT TESTIMONY THAT STATES ATMOS AWARDED**  
17 **THE MAJORITY OF ITS MISSOURI GAS PURCHASING BUSINESS TO AEM?**

18 A. No. Contrary to Mr.. Sommerer's testimony, during the ACA period in review, the  
19 affiliate did not hold a majority of the business and did not win a majority of the bids. In  
20 fact, out of 16 Missouri supply contracts in effect during this ACA period, the affiliate  
21 was awarded five, which is less than one third of the Missouri contracts. In terms of  
22 number of customers, during the ACA period in review, Atmos served approximately  
23 65,500 customers in the state of Missouri. The areas supplied by the affiliate had a

1 combined total of approximately 19,000 customers, which is less than one third of the  
2 Missouri customers. Finally, the areas supplied by the affiliate represents approximately  
3 42% of total Missouri throughput and commodity costs, again not a majority of the  
4 business. Mr. Sommerer had available the data to make these same calculations, and I  
5 presume he will correct his mischaracterization that Atmos awarded the majority of its  
6 Missouri gas purchasing business to AEM.

#### 8 **PRUDENCY OF GAS COSTS**

9 **Q. WHAT IS MR. SOMMERER'S BASIS FOR CONCLUDING THAT GAS COSTS**  
10 **WERE IMPRUDENTLY INCURRED?**

11 A. Because it was not immediately evident to me from his testimony, during discovery  
12 Atmos asked Mr. Sommerer whether or not the decision to accept the bids of AEM  
13 during the RFP process were imprudent. His response was that the RFP process was  
14 somehow imprudent.

15 **Q. DID HE EXPLAIN HOW THE RFP PROCESS WAS DEFICIENT?**

16 A. No. As I explained in my direct testimony, Staff has had abundant opportunity to both  
17 review and provide input on the utility's RFP process. Atmos has even incorporated  
18 previously suggested revisions to the RFP process provided by Staff. The utility  
19 followed exactly the same procedures for the RFPs awarded to AEM as it did for the  
20 RFPs awarded to non-affiliated gas marketers.

#### 22 **CONCLUSION**

23 **Q. PLEASE SUMMARIZE YOUR TESTIMONY FOR THE COMMISSION.**

1 A. The positions adopted by Mr. Sommerer in this case deviate from and go beyond the  
2 requirements of the Commission's Affiliate Transactions rules. Atmos has followed the  
3 Commission's rules by using a competitive bidding process under the direct oversight of  
4 Staff. There is no evidence in the record to show that Atmos gave preferential treatment  
5 to any bidder, regardless of affiliate status. Mr. Sommerer now seeks, without  
6 justification, to apply a heightened, punitive and unfair standard to those bids awarded to  
7 the utility's affiliate, AEM, based on fictional scenarios in which he imagines that AEM  
8 has engaged in some sort of risky behavior in order to provide the lowest bid. Adoption  
9 of Mr. Sommerer's recommended disallowances will have a chilling effect on the  
10 competitive bidding process, as utilities and their affiliates are signaled that having the  
11 lowest bid in an approved, competitive bidding process is no longer considered proof of  
12 fair market value and that prudently obtaining the lowest cost of gas is no longer in the  
13 best interest of the ratepayer.

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

15 A. Yes.