

Exhibit No.:
Issue: Rate Design / Weather Normalization
Witness: Gary L. Smith
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2006-0387
Date Testimony Prepared: November 13, 2006

MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2006-0387
PREPARED SURREBUTTAL TESTIMONY
OF
GARY L. SMITH

On Behalf of
ATMOS ENERGY CORPORATION

November 2006

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

In the Matter of Atmos Energy Corporation's Tariff)
Revision Designed to Consolidate Rates and)
Implement a General Increase for Natural Gas)
Service in the Missouri Service Area of the Company)

Case No.: GR-2006-0387

AFFIDAVIT OF GARY L. SMITH

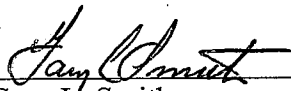
STATE OF Kentucky)
) ss
COUNTY OF Daviess)

Gary L. Smith, being first duly sworn on his oath, states:

1. My name is Gary L. Smith. I work in Owensboro, Kentucky and I am employed by Atmos Energy Corporation as the Vice President of Marketing and Regulatory Affairs for the Company's Kentucky/Mid-States division.

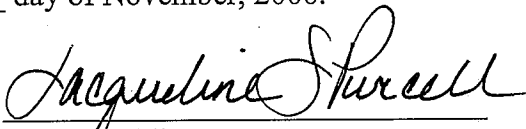
2. Attached hereto and made part hereof for all purposes is my Surrebuttal Testimony on behalf of Atmos Energy Corporation consisting of six (6) pages which have been prepared in written form for introduction into evidence in the above-captioned docket.

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.



Gary L. Smith

Subscribed and sworn before me this 10th day of November, 2006.



Notary Public

My commission expires November 15, 2007

**SURREBUTTAL TESTIMONY OF
GARY L. SMITH
ATMOS ENERGY CORPORATION
CASE NO.: GR-2006-0387**

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

2 A. My name is Gary L. Smith. I am Vice President – Marketing and
3 Regulatory Affairs for Atmos Energy Corporation’s (sometimes hereinafter
4 referred to as the “Company”) Kentucky/Mid-States division. My business
5 address is 2401 New Hartford Road, Owensboro, Kentucky 42303.

6 **Q. Are you the same Gary L. Smith who previously filed Direct and**
7 **Rebuttal Testimony in this case?**

8 A. Yes. I presented Direct Testimony in this docket on April 7, 2006 and
9 Rebuttal Testimony on October 31, 2006.

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my surrebuttal testimony is to address the rate design issues
12 raised by the Office of the Public Counsel (OPC) witness Barbara
13 Meisenheimer in her rebuttal testimony filed on October 31, 2006.

14 **Q. What is the Company’s current position regarding Staff’s Delivery**
15 **Charge rate design proposal?**

16 A. As indicated in my October 31, 2006 rebuttal testimony, Atmos Energy
17 wishes to adopt Ms. Ross’ Delivery Charge rate design. Attached as
18 Schedule 1 to that testimony was one minor modification that sculpted the
19 Delivery Charge between summer and winter periods. Atmos Energy

1 witness Patricia Childers is building off of this proposal in her surrebuttal
2 and recommending rates for all classes in accordance with the common
3 ground identified in both the Company's and Staff's rebuttal testimony.

4 **Q. Is OPC in agreement with the Delivery Charge rate design proposal?**

5 A. No. The concerns expressed by OPC include the impact on the smaller
6 volume residential customers (Meisenheimer page 10-12),; that Staff offered
7 contrary testimony to a similar proposal in a previous case (Meisenheimer
8 page 12-13),; and that it will, in OPC's opinion, somehow "guarantee"
9 recovery of non-gas costs (Meisenheimer page 19).

10 **Q. Will the Delivery Charge rate design proposal impact smaller volume**
11 **residential customers?**

12 A. The Delivery Charge rate design proposal will undoubtedly have an impact
13 on all customers. However, it is important to keep in mind that the Delivery
14 Charge rate design is reflective of embedded service costs and that no rate
15 design model perfectly addresses each unique customer profile. As stated in
16 previous testimony, the Company's non-gas costs, overall, are
17 predominately fixed and unaffected by variations in volumetric deliveries.
18 More specifically, the costs for delivering natural gas to residential or small
19 commercial customers is essentially equal, and requires substantially the
20 same type of facilities to serve the customer. This is true regardless of the
21 actual volumetric use. The two examples cited by Ms. Meisenheimer in her
22 testimony fail to account for the full bill impact to customers because her
23 examples exclude the gas commodity cost (or PGA) portion of the bill,

1 which will continue to be billed on a volumetric basis. If she had included
2 the volumetric PGA portion of the bill, it would show that customers who
3 utilize higher volumes of natural gas will in fact pay a higher total bill than
4 customers who use less natural gas. Secondly, Ms. Meisenheimer
5 overlooks the fact that the existing two part rate design has an inherent intra-
6 class inequity built into it. That is because unless rates are designed for each
7 and every meter served, some type of intra-class inequity is going to exist.
8 Obvioulsy, designing rates at an individual meter level is not practical.

9 **Q. Has Commission Staff offered contrary testimony in past dockets before**
10 **the Commission?**

11 A. Yes. As indicated by Ms. Meisenheimer, in Case No. GR-2002-356., a case
12 involving Laclede Gas Company, Staff offered testimony opposing the
13 Delivery Charge rate design.

14 **Q. Has anything changed since the Laclede case in 2002?**

15 A. Yes, several things have changed since 2002. In addition to the NARUC
16 Resolution adopted in November 2005 (Staff witness Anne Ross Schedule
17 3-1), I would point out that at its August 31, 2006 meeting, the Missouri
18 Energy Task Force adopted the National Energy Action Plan for Energy
19 Efficiency. I have attached a copy of this resolution to my surrebuttal
20 testimony as Schedule GLS SURREB – 1.

21 **Q. What is the National Action Plan for Energy Efficiency (NAPEE)?**

22 A. NAPEE recommends that regulatory policies be modified to align utility
23 incentives with the delivery of cost-effective energy efficiency and that

1 ratemaking practices be modified to promote energy efficiency investments.
2 The recommendation specifically points to removing the “typical utility
3 throughput incentive” which directly ties the utility’s profits with the
4 amount of throughput on their system. As I have noted in previous
5 testimony, replacing a volumetric charge with the Delivery Charge would
6 align the customer’s and the Company’s interests and thereby achieve the
7 objective of the NAPEE. I have included a complete copy of the NAPEE
8 report as Schedule GLS SURREB – 2.

9 **Q. In light of these two recent developments do you believe that a change**
10 **in policy by the Commission is appropriate?**

11 A. Yes. I believe that the timing is appropriate for the Commission to accept
12 Staff’s Delivery Charge rate design proposal and establish rate design policy
13 consistent with the aim of the NARUC Resolution and with the recently
14 adopted resolution of the Missouri Energy Task Force.

15 **Q. Is it correct, as indicated by Ms. Meisenheimer, that the Delivery**
16 **Charge rate design will “guarantee” recovery of non-gas costs (Page 19,**
17 **line 6-7)?**

18 A. No. The Delivery Charge rate design is no more of a guarantee of recovery
19 of gas distribution (non-gas commodity) costs than the standard two-part
20 rate design. Regardless of the rate design implemented through its tariffs,
21 the Company must still bill and collect the charges for the service it renders.
22 While I agree that the Delivery Charge rate design addresses the concerns
23 related to weather and declining customer usage that I discussed in my

1 direct testimony, recovery of costs still depends on the sustained retention of
2 customers. I would remind the Commission of my previous statements that
3 the Delivery Charge rate design also provides benefits to customers. The
4 customers benefit by having more certainty and less variability regarding
5 their monthly bill regardless of the weather. Consequences of customer
6 usage variations will be tied to the associated incremental gas commodity
7 costs, without the distortion of volumetric distribution charges under a
8 standard two-part rate.

9 **Q. Are there any other areas of Ms. Meisenheimer's testimony that you**
10 **would like to address?**

11 A. Although the Company is no longer proposing that it be granted the WNA
12 proposal outlined in my direct testimony, I would like to note that several of
13 Ms. Meisenheimer's statements regarding the Company's WNA proposal
14 are factually incorrect and show a general lack of understanding of my
15 original weather mitigation proposal in this case. For example, on page 30,
16 line 3-9 Ms. Meisenheimer indicates that "the WNA adjusts the rate that will
17 apply to customers in future rate periods based on how much the margin
18 revenues collected in the past have varied from the amount that would have
19 been collected if the weather was "normal"..." Atmos' WNA tariff, as
20 approved in other states, actually adjusts the customer's bill in the bill
21 calculation process for that billing cycle's weather variance. If weather is
22 colder than normal, the customer gets a reduction on their bill to reflect this
23 variance from normal. There are several other inaccurate WNA related

1 comments made in Ms. Meisenheimer's rebuttal testimony, but since I have
2 adopted Staff's Delivery Charge rate design proposal, I won't go through
3 each and every one. I would recommend that the Commission disregard all
4 of Ms. Meisenheimer's comments related to the Company's WNA proposal.

5 **Q. Would you like to make any closing comments?**

6 A. Yes. I would like to reiterate the statement in my rebuttal testimony that the
7 Company believes that it is good public policy to adopt a rate design in this
8 case that allows it a reasonable opportunity to collect its revenue
9 requirement. It is the Company's position that the Delivery Charge rate
10 design proposed by Staff will achieve this goal by allowing the Company
11 and Customer interests to be aligned.

12 **Q. Does that conclude your surrebuttal testimony?**

13 A. Yes.