

**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**

**ATMOS ENERGY CORPORATION'S  
RESPONSE TO STAFF RECOMMENDATION**

**COMES NOW** Atmos Energy Corporation (“Atmos” or “Company”), and pursuant to 4 CSR 240-2.080 and the Commission’s Order Directing Response issued on December 29, 2009 states its response to the Staff’s Recommendation filed on December 28, 2009 as follows:

On December 28, 2009 the Commission Staff filed its recommendation following completion of the audit of the 2007-2008 Actual Cost Adjustment (“ACA”) filing. The Staff’s audit consisted of a review and analysis of the billed revenues and actual gas costs for the period of September 1, 2007 to August 31, 2008 for all areas of served by the Company in Missouri. The Company will respond to various issues identified by Staff in paragraphs corresponding to those sections contained in the Staff Memorandum.

**SECTION 1: ATMOS ENERGY CORPORATION, GENERAL**

Staff made the following recommendations with regard to the overall Atmos Energy Corporation: “The Staff recommends that the Commission issue an order requiring Atmos to:

1. Respond to the issues in the Reliability Analysis and Gas Supply Planning section of this Memorandum. (There is no financial adjustment related to Reliability or Supply Planning for this ACA review period.)
2. For the Staff concerns regarding the supply agreement with Atmos Energy Marketing, an affiliate of Atmos, adjust the gas costs for the Consolidated district (Areas P& U) by (\$349,015) as shown in Section 3 - Table 2 and by (\$13,964)for the Butler district as

shown in Section 2 - Table 1. Additionally, respond to the RFP issues and recommendations in the Affiliated Transaction section of this Memorandum.

3. Respond to Staff's comments in the Hedging Section.
4. Increase the school aggregation revenue recovery for the following: Kirksville \$797, Consolidated \$2,270 and SEMO \$3,580. These adjustments are included in the tables located in Section 2 – Table 1 and Section 3 – Table 2.
5. Adjust cash-out amounts for the following: Kirksville (\$1,119), SEMO (\$16,459), and Consolidated (\$26,188). These adjustments are included in the tables located in Section 2 – Table 1 and Section 3 – Table 2.
6. File a written response to the recommendations included herein within 30 days.” (Staff Memorandum, pages 7 and 8 of 12.)

#### **ATMOS RESPONSE TO GENERAL RECOMMENDATIONS RELIABILITY ANALYSIS AND GAS SUPPLY PLAN REVIEW**

##### **Regression Analysis**

Staff recommends that “the Company further explain its methodology for evaluating which variables to include/exclude in its models for future ACA reviews; this can be provided with the 2008/2009 ACA methodology justification.” (Staff Memorandum, page 3 of 12).

In response, Atmos agrees to answer Staff's questions and provide further explanations on this methodology, as requested by Staff. In particular, Staff expresses concerns with the Company's inclusion and estimation of the prior day's usage to predict the weather load.

The Company includes an estimation of the prior day's usage to predict the total load (not the weather-sensitive load) since it improves the model. Following the recommendation of the Company's consultant Dr. Russ Robins, the Company utilizes lags of HDD and lags of Dth to eliminate serial correlation. Residuals are serially correlated if the error for today is related to the error from yesterday; that is, serially correlated errors imply that the model over-forecasts or under-forecasts systematically.

Staff also expresses concerns for the monthly factors; the standard errors are a large percent of the coefficients value. An example is the SEMO area where the standard error is 25% to 168% of the value of the coefficient.

Upon the recommendation of Dr. Robins, the Company utilizes monthly factors to improve the accuracy of the model by identifying different usage factors for each month of the year. The Company's analysis of individual factors focuses on the value of the t-statistic, with absolute values over two indicating a statistically significant variable. In reference to the SEMO study four out of the five winter months in question have a t-statistic over two. The addition of these monthly variables lowers the overall standard error improving the accuracy of the forecast.

Staff also indicates that the data set used for the regression models consisted data from the period of November 1, 2002 through March 31, 2007. Staff encourages the Company to evaluate whether the older data should be deleted in order to take into account the effects of changes in customer habits and efficiency gains on the system.

In response, the Company notes that it began incorporating a stability test beginning with the 2009/2010 ACA. Dr. Robins recommended using a statistical test called the "Quandt-Andrews Break Point Test" which tests for breakpoints or structural changes in the sample of an equation. These breakpoints simply mean that the data has changed over the sample period. The overall forecast is improved by removing the unstable data and calculating the regression on stable data.

#### **Jackson Reserve Margin (served by NGPL)**

Staff indicates that it "will be looking for Atmos' support for its analysis and decision for the appropriate capacity for the 2010/2011 and future ACA periods." (Staff Memorandum, page 3 of 12)

In response, Atmos agrees to answer Staff's questions and provide further explanations regarding this decision, as requested by Staff. Atmos has taken action to address the Jackson reserve margin. The NGPL pipeline capacity contracts in question came up for renewal notice in early 2009. On March 30, 2009 Atmos gave a one year advance notice from the date of contract expiration to reduce the capacity on its winter-only contract by 700 dth/day, from 900 dth/day to 200 dth/day. After the reduction, the total transportation capacity for NGPL Jackson will be 9,007 dth/day. The Jackson area peak day estimate for the 09/10 ACA period is 8,887 dth/day. The Company also changed the service months of the winter-only contract from November through March to December through February. The effective date of the capacity reduction is 12/1/2010. The contracts were renewed for the pipeline minimum of three years.

**Greeley (Stateline) Allocations (served by Southern Star Central Gas Pipeline, Inc.)**

In this section, Staff notes: "The storage plans provided to Staff have seemed reasonable in terms of estimated loads, withdrawals, and injections. Staff recommends the Company utilize their Gas Supply Plans as guidance for future ACA periods or explain why it is not following its storage plans." (Staff Memorandum, page 4 of 12). In response, Atmos agrees to answer Staff's questions and provide further explanations on this decision, as requested by Staff.

**Hannibal, Canton, Palmyra, and Bowling Green (served by Panhandle Eastern Pipe Line)**

Discussing a previous concern of Staff related to reserve margins, Staff states: "This negative reserve margin has been rectified due to the repairs to the propane facility in October 2008." (Staff Memorandum, page 4 of 12). Atmos agrees with this statement.

## **AFFILIATE TRANSACTIONS**

Atmos has serious disagreements with Staff over the Affiliated Transaction Adjustments proposed in this case related to gas supply contracts with AEM. For the reasons explained herein, the Staff should reconsider its proposed Affiliated Transactions Adjustments in this proceeding.

### **STAFF'S PROPOSED AFFILIATED TRANSACTIONS ADJUSTMENTS**

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Such competitive bidding is required by 4 CSR 240-40.016, unless the regulated company can demonstrate why competitive bids were neither necessary nor appropriate:

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

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

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The Missouri Court of Appeals recently reviewed a similar situation involving the issue of whether an unregulated affiliate of an electric company was required to sell its services to a regulated affiliate company at its cost without incurring a profit. The Court held that such a requirement to sell to the affiliated regulated company at cost “would have resulted in the [the unregulated affiliated company] board’s violating its fiduciary duty . . . to manage the corporate business solely in accord with the corporation’s interest.” *State ex rel. Public Counsel v. Public Service Commission*, WD 69259 (consolidated with WD 69270 and WD 69297)(Slip Opinion, p. 18)(Filed on January 13, 2009).

## **HEDGING**

Atmos accepts the Staff's recommendations in this section.

## **MISSOURI SCHOOL TRANSPORTATION SERVICE**

Atmos accepts the Staff's recommendations in this section.

## **CASH-OUT PROVISIONS**

Atmos accepts the Staff's recommendations in this section.

### **SECTION 2: AREAS B, K, AND S (formerly ANG)<sup>1</sup>**

With regard to the former ANG areas, Areas B, K, and S, the Staff has made the recommendations discussed below. With the exception of the highlighted \$13,964 adjustment (E) related to the Affiliated Transactions and highlighted Beginning Balances, the Company accepts Staff's proposed adjustments in Table 1. For the reasons stated above, the Company must respectfully disagree with the Staff's proposed adjustment related to the Affiliated Transactions. In addition, the Company believes that the ACA beginning balances on the Tables 1, 2 and 3 may be incorrect and not reflect previous adjustments that were made. The Company is attaching revised tables which include what the Company believes are the correct Beginning Balances and a spreadsheet to support its calculations of these Beginning Balances.

The Staff recommendations are as follows:

"The Staff recommends that the Commission issue an order requiring Atmos to:

- 1 Adjust the ACA account balances in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA balances in the "Staff Recommended" column of the following table:

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<sup>1</sup> In the future, Atmos recommends that the parties no longer refer to the areas by historic names or letters (B, K, S, ANG, P, U, etc.) since the Commission has consolidated the districts in Case No. GR-2008-0364 and the Company now refers to them as the Northeast, Kirksville, Southeast and West Districts.

**TABLE 1**

<b>Areas B, K, and S</b>	<b>8-31-08 Ending Balances per Filing for 2007-2008</b>	<b>Staff Adjustments</b>	<b>Staff Recommended Ending Balances for 2007-2008</b>
<b>SEMO District (Area S)</b>			
Demand ACA	(\$416,575)	\$331 (C)	(\$416,244)
Commodity ACA	(\$2,643,834)	(\$69,893) (A) (\$3,580) (B) \$2,078 (C) (\$16,459) (D)	(\$2,731,688)
<b>Kirksville District (Area K):</b>			
Demand ACA	(\$63,384)	\$0	(\$63,384)
Commodity ACA	(\$594,196)	(\$40,657) (A) (\$797) (B) (\$1,119) (D)	(\$636,769)
<b>Butler District (Area B):</b>			
Demand ACA	(\$38,190)	\$0	(\$38,190)
Commodity ACA	(\$214,329)	\$54,184 (A) (\$13,964) (E)	(\$174,109)

Notes to Staff Adjustments:

- A) ACA beginning balances August 31, 2007 adjusted to prior year ending balances (Exhibit A)  
 B) Missouri school revenue recovery  
 C) Revenue recovery  
 D) Cash-out  
 E) Affiliated transaction

2. Keep the current case open pending resolution of the Truman State billing error.
3. File a written response to the recommendations included herein within 30 days.” (Staff Memorandum, page 9 of 12)



## **SECTION 2: ATMOS RESPONSE TO SPECIFIC RECOMMENDATIONS**

### **REVENUE RECOVERY—SEMO**

Atmos accepts the Staff's recommendations in this section.

### **NORANDA—CONTRACT**

Staff recommends the Company's special contracting provisions with Noranda will need to be reviewed in the context of Atmos' next rate case. Atmos agrees that this matter does not need to be addressed in this PGA/ACA case.

### **TRUMAN STATE BILLING ERROR**

The Company has corrected the Truman State Billing Error identified in this section. The Company does not believe it is necessary to keep the current case open merely to deal with this matter since this billing error has been corrected.

## **SECTION 3: AREAS P AND U (CONSOLIDATED)**

With regard to the former United Cities Gas areas, Areas P and U, the Staff has made the recommendations listed below. With the exception of the highlighted \$349,105 adjustment (E) related to the Affiliated Transactions and highlighted Beginning Balances, the Company accepts Staff's proposed adjustments in Table 2. However, for the reasons stated above, the Company must respectfully disagree with the Staff's proposed adjustment related to the Affiliated Transactions.

"The Staff recommends that the Commission issue an order requiring Atmos to:

- 1 Adjust the ACA account balances in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA balances in the "Staff Recommended" column of the following table:

**TABLE 2**

<b>(CONSOLIDATED) Areas P and U</b>	<b>8-31-08 Ending Balances per Filing for 2007-2008</b>	<b>Staff Adjustments</b>	<b>Staff Recommended Ending Balances for 2007-2008</b>
<b>Consolidated District:</b> Demand ACA	(\$413,769)	(\$163) (D)	(\$413,932)
Commodity ACA	(\$774,056)	(\$102,617) (A) (\$2,270) (B) (\$26,188) (C) (\$3,543) (D) (\$349,015) (E)	(\$1,257,689)
<b>Neelyville District:</b> Demand ACA	(\$17,000)	(\$10) (A)	(\$17,010)
Commodity ACA	(\$29,017)	(\$2,189) (A)	(\$31,206)

Notes to Staff Adjustments:

- A) ACA beginning balances August 31, 2007 adjusted to prior year ending balances (Exhibit A).
- B) Missouri school revenue recovery
- C) Cash-out
- D) Revenue recovery
- E) Affiliated transaction

2. File a written response to the recommendations included herein within 30 days.” (Staff Memorandum, p. 10 of 12)

**SECTION 4: AREA G (formerly GREELEY GAS)**

With regard to the former Greeley Gas area, Area G, Staff has made the recommendations listed below which are acceptable to the Company with the exception of the highlighted Beginning Balance.

“The Staff recommends that the Commission issue an order requiring Atmos to:

- 1 Adjust the ACA account balances in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA balances in the “Staff Recommended” column of the following table:

**TABLE 3**

<b>(GREELEY) Area G</b>	<b>8-31-08 Ending Balance per 2007-2008 Filing</b>	<b>Staff Adjustments</b>	<b>Staff Recommended Ending Balances for 2007-2008</b>
Total ACA Balance	(\$64,445) (C)	(\$90,893) (A) \$2,734 (B)	(\$152,604)

Notes to Staff Adjustments:

- A) ACA beginning balances August 31, 2007 adjusted to prior year ending balances (Exhibit A).
- B) Revenue adjustment
- C) Combined demand and commodity ACA balance \$61,412 + (\$125,857) – No interruptible customers on this system during this ACA.

2. File a written response to the recommendations included herein within 30 days. (Staff Memorandum, p. 11 of 12).

**SUMMARY**

In summary, the Company agrees with most of the adjustments proposed by Staff, with the exception of the Affiliated Transactions Adjustments and the ACA Beginning Balances included in the Staff Recommendation. The Company, however, strongly disagrees with the Affiliated Transaction Adjustments, as explained more fully herein, and believes that the Beginning Balances may need to be corrected.

**WHEREFORE**, the Company respectfully recommends that the Commission schedule a Prehearing Conference for the parties to discuss their differences on the Affiliated Transactions and the Beginning Balance issues discussed herein and propose a procedural schedule for resolving this case.

Respectfully submitted,

/s/ James M. Fischer

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### **CERTIFICATE OF SERVICE**

I do hereby certify that a true and correct copy of this document has been hand-delivered, emailed or mailed, First Class, postage prepaid, this 28th day of January, 2010, to:

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/s/ James M. Fischer

James M. Fischer