

Exhibit No.:
Issue: Prudence of gas costs and
Affiliated Transaction Rules
Witness: Rebecca Buchanan
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2008-0364
Date Testimony Prepared: December 22, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: GR-2008-0364

SURREBUTTAL TESTIMONY

OF

REBECCA BUCHANAN

ON BEHALF OF

ATMOS ENERGY CORPORATION

**Franklin, Tennessee
December 2010**

**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 her 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 Surrebuttal Testimony on behalf of Atmos Energy Corporation consisting of eighteen (18) pages, 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.

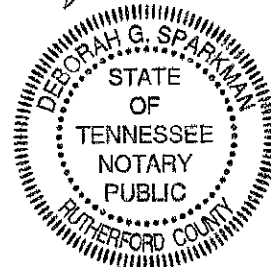
Rebecca M Buchanan
Rebecca M. Buchanan

Subscribed and sworn before me this 20 day of December 2010.

Deborah G Sparkman
Notary Public

My commission expires: _____

My Commission Expires:
September 16, 2012



**SURREBUTTAL 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. DID YOU FILE DIRECT AND REBUTTAL TESTIMONY IN THIS**
5 **DOCKET GR-2008-0364?**

6 A. Yes.

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

9 A. Yes.

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

11 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Mr.
12 Sommerer. My testimony will focus on a number of areas. First, I will clarify or correct
13 numerous statements made by Mr. Sommerer that are either misleading or incorrect. I
14 will also discuss the role of the Company's gas supply department and contrast it with the
15 services provided by gas marketers. In addition, I will address certain questions raised by
16 Mr. Sommerer in his rebuttal testimony that are totally speculative as well as the ever
17 evolving level of information Staff claims it requires in order to support a

1 recommendation made approximately one year ago. Further, I will show that with issue
2 after issue raised by Mr. Sommerer, a pattern has emerged of claiming that certain
3 information is crucial to his inquiry, despite the fact that information was not requested
4 during the course of the audit and in many cases, not until months after Staff's
5 recommendation was already filed. Finally, I will demonstrate that, in spite of the use of
6 misleading and inflammatory language, Mr. Sommerer's testimony has little basis in fact
7 and has not raised any reasonable questions about the prudence of the actual gas costs
8 incurred.

9 **Q. WHAT ARE THE MAJOR CONCERNS RAISED BY MR. SOMMERER IN HIS**
10 **REBUTTAL TESTIMONY?**

11 A. The main gist of Mr. Sommerer's testimony is centered around raising the specter of back
12 room dealing and manipulation by Atmos employees for the sake of profit. The facts,
13 however, do not support this, which is presumably why Mr. Sommerer has continued to
14 request more and more information to vindicate one of his shifting theories. Similar to his
15 direct testimony, Mr. Sommerer's rebuttal again raises various hypothetical scenarios as
16 opposed to addressing the actual facts of this case. He has divided his rebuttal testimony
17 into six areas: gas supply optimization, request for proposal (RFP), executive
18 compensation, AEM trading, nominations, and profit and loss. While I don't necessarily
19 agree that Mr. Sommerer has accurately titled the parts of his testimony, I will address
20 each of these sections as he has chosen to group them, and finally summarize the case
21 and the facts that are in front of the Commission.

1 **GAS SUPPLY OPTIMIZATION**

2 **Q. WOULD YOU LIKE TO COMMENT ON MR. SOMMERER'S SECTION**
3 **TITLED "GAS SUPPLY OPTIMIZATION"?**

4 A. Yes. I find that the title of Mr. Sommerer's section "Gas Supply Optimization" may
5 indicate a misunderstanding of the role of the supplier in the Hannibal/Bowling Green
6 transaction. The RFP and subsequent contract that was awarded and is now in question
7 by Mr. Sommerer is a "supply-only" service. Atmos did not request the suppliers in this
8 area perform any optimization functions. In a supply-only transaction, during off-peak
9 periods the utility may temporarily release underutilized assets to another party via the
10 pipeline's auction website.

11 **Q. DID THE COMPANY HAVE ANY SUCH RELEASES DURING THE 2007-2008**
12 **REVIEW PERIOD?**

13 A. Yes the Company released capacity to both AEM and OneOK during that period, which
14 effectively reduced the cost of pipeline demand charges for our Missouri customers.

15 **Q. WHAT IS THE ONLY ISSUE THAT MR. SOMMERER ARTICULATES UNDER**
16 **HIS SECTION TITLED "GAS SUPPLY OPTIMIZATION"?**

17 A. Mr. Sommerer's chief concern on this issue appears to be that he finds it "remarkable"
18 that a large natural gas distribution utility does not have the resources to optimize PGA
19 assets. This observation, however, does not support a finding that gas costs were
20 imprudent. Notably, it was not sufficient for Staff to recommend disallowing gas costs
21 incurred from non-affiliated gas marketers.

22 **Q. WHY WOULD A COMPANY AS LARGE AS ATMOS USE OUTSIDE GAS**
23 **MARKETERS?**

1 A. As Mr. Sommerer (Rebuttal, p. 2 line 10) quoted from the Company's website, Atmos is
2 the "largest natural-gas-only distributor in the United States." To continue quoting from
3 that same page, "Atmos Energy is known as one of the most efficient natural gas
4 distribution companies in the industry because of constant cost management. Employees
5 keep productivity at industry-leading levels." One of the primary ways that Atmos is able
6 to maintain efficient, low cost service is to focus on its core competency, the business of
7 natural gas distribution, and leave functions like asset optimization and gas trading to
8 other organizations that specialize in such functions when it is appropriate to do so. As
9 was mentioned in my rebuttal testimony in this case (Buchanan Rebuttal, p. 5, lines 2 –
10 6), "... gas marketers, both affiliated and non-affiliated, have greater purchasing power
11 than regulated utilities by virtue of the fact that they may bundle their purchases into a
12 comprehensive portfolio of business that can include non-utility customers. The utility
13 does not have the ability to take advantage of similar efficiencies of scale." Simply
14 stated, the Company uses gas marketers to obtain better value for the customers than it
15 could achieve on its own.

16 **REQUEST FOR PROPOSAL (RFP)**

17 **Q. WHAT IS THE MAIN CONCERN THAT MR. SOMMERER RAISES WITH**
18 **RESPECT TO THE REQUEST FOR PROPOSAL (RFP) PROCESS?**

19 A. Mr. Sommerer speculates that the Request for Proposal (RFP) process may "not
20 necessarily" result in the lowest and best price available. I find it noteworthy that he
21 draws this conclusion only with respect to Atmos Energy Marketing (AEM), Atmos'
22 affiliated gas marketer, but does not find that it applies to other gas marketers who
23 submitted successful bids pursuant to the same RFP process. Mr. Sommerer concedes

1 that Staff has had the opportunity to provide input into and help shape the RFP process
2 that Atmos uses to select third party marketers. In fact, Atmos made changes to its RFP
3 process to accommodate Staff's requests in order to further demonstrate the fairness and
4 integrity of the RFP process.

5 **Q. WHAT DOES MR. SOMMERER SAY ABOUT THE AMOUNT OF ATMOS**
6 **BUSINESS WON BY AEM THROUGH THIS RFP PROCESS?**

7 A. In his rebuttal testimony, Mr. Sommerer makes the statement that "AEM does tend to win
8 a significant amount of business in other Atmos jurisdictions." His implication is that the
9 RFP process is skewed in favor of the affiliate.

10 **Q. IS MR. SOMMERER'S ASSESSMENT ACCURATE?**

11 A. That would depend on how he is defining "significant amount." Mr. Sommerer's
12 statement regarding how much Atmos business AEM wins is comparable to his earlier
13 assertion that a "majority of business" in Missouri went to AEM. Mr. Sommerer
14 admitted in his rebuttal that he did not base that part of his testimony on concrete
15 quantifications of customers or volumes, but merely on his "high level observation"
16 related to a "majority of PGA areas."

17 In a strikingly similar vein, Mr. Sommerer did not provide any figures supporting the idea
18 that AEM wins a "significant amount" of business in Atmos jurisdictions, or even hint at
19 what objective basis Staff has made this notation – volumes, customers or dollars. Mr.
20 Sommerer himself testifies that AEM doesn't do business with Atmos in two out of the
21 twelve states Atmos serves, Colorado and Texas (Sommerer Rebuttal, p. 11, lines 18-19).
22 The Company's Texas jurisdiction alone comprises more than half of all Atmos' utility
23 business throughout its system, yet it does no business with AEM in Texas. I have no

1 way of knowing what Mr. Sommerer means when he uses the term "significant amount"
2 without specific metrics, but based on customer counts alone the AEM supplied areas
3 would be well below 50% of Atmos' total customers. AEM is a large marketer with a
4 presence in many states in which Atmos does not operate as a utility. It serves more than
5 1,000 customers in 22 states. The reality is that Atmos does not make up the majority of
6 AEM's business nor does it capture the majority of Atmos' gas supply contracts. AEM
7 certainly has not been Atmos' dominant gas supplier in Missouri. Since April of 2004,
8 AEM has won only six out of the 48 RFPs issued by Atmos in Missouri. During the ACA
9 period at issue in this case, AEM was only awarded two out of the eight gas supply
10 contracts it did not win the bids for approximately 66% percent of Atmos' load in
11 Missouri.

12 **Q. IF THE PROPOSED DISALLOWANCE IN GR-2006-0403 WAS BASED UPON**
13 **CONCERNS SIMILAR TO THOSE IN THE PRESENT CASE, WHY DID**
14 **ATMOS SETTLE THE 2006 ACA CASE AND NOT THIS ONE?**

15 A. The amount of the disallowance at issue in GR-2006-0403 was much smaller than the one
16 in this case. The decision to settle that case was a business decision and did not, in any
17 way, signal Atmos' agreement with any of Staff's contentions in that case.

18 **Q. DOES MR. SOMMERER MENTION ANY OTHER CONCERNS ABOUT THE**
19 **RFP PROCESS?**

20 A. Yes, he brings up a few others. Mr. Sommerer mentions concern over a lack of bids in
21 the Hannibal area. This is consistent, however, with the bid history for the Hannibal area
22 as shown in Highly Confidential Attachment 2 to my direct testimony. In fact, Atmos

1 received more bids in the Hannibal area for the 2007-2008 ACA period than in any other
2 year since 2004.

3 Mr. Sommerer then makes reference to the use of a “suspect criteria” in the bid process –
4 namely that one of AEM’s advantages was that it was located in Owensboro, Kentucky,
5 the same location as the pipeline supplier. Because Mr. Sommerer neglects to include
6 any supporting citation, I do not know how this could possibly be cited as an advantage,
7 who provided it, or to what evaluation Mr. Sommerer is referring. Also, the only pipes
8 currently or recently headquartered in Owensboro are Texas Gas and SouthernStar.
9 Neither pipe serves the Hannibal and Butler areas. These areas are served via Panhandle
10 Eastern and have no relationship with Texas Gas or SouthernStar. Without more
11 information, I am unsure as to what Mr. Sommerer is talking about.

12 Finally, Mr. Sommerer mentions that AEM was listed as an “agent” on the Texas Eastern
13 system for Atmos. Staff previously raised this issue during GR-2007-0403. As Atmos
14 explained in that case, however, this was the result of an error on the part of Texas
15 Eastern and had no basis in the actual relationship between or actions taken by AEM or
16 Atmos. At no time has the asset manager had the ability to act as agent for areas outside
17 their contract. The issue apparently arose because there was some misinformation on
18 Texas Eastern’s electronic bulletin board that indicated AEM as agent on some old
19 contracts. However, AEM never had authority to act nor did it act as agent outside its
20 contract area. Texas Eastern cleaned up its website promptly after it became aware that
21 the information was not correct. Texas Eastern’s error did not implicate any actual
22 agency authority, and Atmos agreed to “continue to have controls in place to insure that
23 any vendor only has access to their respective business won through a competitive bid

process” as a part of the Unanimous Stipulation and Agreement in GR-2007-0403. Staff is fully aware of these circumstances and the corrective measures that followed. Bringing up such outdated irrelevant information is baseless and only attempts to cloud the facts. In each of these instances, Staff appears to be doing nothing more than making unsupported allegations.

Q. BASED ON YOUR UNDERSTANDING OF HIS TESTIMONY, WHY DOES MR. SOMMERER BELIEVE THAT THE RFP PROCESS DOES NOT RESULT IN A FAIR MARKET PRICE FOR THE SERVICES PROVIDED BY AEM?

A. Mr. Sommerer poses a series of hypothetical questions that he believes must be examined in order to evaluate AEM’s fair market value (based on the flawed assumption that AEM’s fair market value is the same as the utility’s).

Q. DO YOU FIND ANYTHING REMARKABLE ABOUT THE SERIES OF HYPOTHETICAL INQUIRIES MR. SOMMERER PROPOSES?

A. Yes. While Mr. Sommerer characterizes these as questions of concern that require close scrutiny, I find it remarkable that Staff failed to submit data requests directly related to many of these hypotheticals during the audit process leading up to the quantification of the recommended disallowance. In fact, it seems that each time Atmos receives a new piece of testimony or discovery request from Staff, the inquiries that he deems central to his evaluation of the prudence of gas costs have changed. He caps off his list of hypotheticals by repeating the disingenuous assertion that AEM wins a significant level of business with Atmos. Once again, it appears that Mr. Sommerer is raising many questions, answering few, and hoping, after the fact, that one of the hypothetical questions can be enough to support the proposed disallowance.

1 **EXECUTIVE COMPENSATION**

2 **Q. WHAT DOES MR. SOMMERER HAVE TO SAY ABOUT EXECUTIVE**
3 **COMPENSATION?**

4 A. Mr. Sommerer begins by suggesting that Atmos was less than forthcoming about its
5 executive compensation. (Atmos has only agreed to provide a limited amount of
6 information, Sommerer Rebuttal p. 6, line 15) As with other publicly traded companies,
7 however, the compensation of Atmos' highest paid executives is subject to transparency
8 regulations. Their compensation information is available to the general public through
9 both Atmos' website and the website of the Securities and Exchange Commission.

10 It is my understanding that the only area in which Atmos sought to limit its response with
11 respect to compensation was when Staff sought detailed information about individual
12 non-management employees' incentive compensation. It is routine for Atmos to limit
13 dissemination of employees' sensitive personal information.

14 **Q. IS MR. SOMMERER CORRECT IN HIS STATEMENTS ABOUT ATMOS'**
15 **INCENTIVE COMPENSATION PROGRAM?**

16 A. Some of his statements are correct, some are not and he draws certain inferences that are
17 off base. Mr. Sommerer is correct that Atmos does provide employees with the
18 opportunity to earn incentive compensation and the amount of the award is tied to
19 Earnings Per Share (EPS) since the Company believes this is a good objective reflection
20 of effective and efficient service. However, Mr. Sommerer is mistaken when he says
21 "those rewards are paid by ratepayers." As Mr. Sommerer is aware, Staff has
22 consistently advocated against the inclusion of incentive compensation in rates, the most
23 recent of which were resolved by a unanimous stipulation and agreement among the

1 parties and approved by the Commission in Case No. GR-2010-0192. Mr. Sommerer then
2 hypothesizes that this may create an incentive for AEC employees to help AEM
3 maximize profits. However, he presented no evidence that this has actually happened
4 and the explanation he provides later in his rebuttal as to how LDC employees *might* help
5 AEM increase their profits has absolutely no basis in fact.

6 **Q. CAN YOU ATTEST TO THE INTEGRITY OF THE RFP PROCESS AND THE**
7 **GAS SUPPLY EMPLOYEES WHO HANDLE THE MISSOURI JURISDICTION?**

8 A. Yes. There have only been a few people in the Atmos Gas Supply Department directly
9 involved with the Missouri jurisdictional transactions. In 2007, that was Mark Martin
10 and Mike Walker. In 2008, that was myself and Mike Walker. I have worked with Mr.
11 Martin for many years and with Mr. Walker for over three years. Both of these men are
12 forthright, honest and act with integrity. Mr. Sommerer should be very familiar with all
13 three people, and I take offense to the fact that Staff has taken positions in this case
14 calling into question our character. In addition, Mr. Walker's supporting workpapers
15 presented to Staff have always been well documented, accurate and timely.

16 **Q. IS THERE ANYTHING ELSE YOU WANT TO MENTION WITH RESPECT TO**
17 **COMPENSATION?**

18 A. I noted that Mr. Sommerer testified, with respect to compensation, that "this needs to be
19 fully confirmed through follow-up discovery." Atmos has received no additional
20 discovery requests from Staff pertaining to compensation since the filing of Mr.
21 Sommerer's rebuttal.
22
23

AEM TRADING

Q. WHAT CONCERNS DOES MR. SOMMERER RAISE WITH RESPECT TO AEM TRADING?

A. Mr. Sommerer asserts that AEM's "use of higher-risk trading practices" is a way to bid an RFP lower. Mr. Sommerer further complains that he cannot possibly perform a thorough analysis of these critical issues without the upstream contracts sought from AEM.

Q. IS THERE ANY MERIT TO THESE CONCERNS?

A. No, these concerns are meritless for several reasons. First, Mr. Sommerer does not testify that AEM has *actually* used high risk trading practices only that they *could* have done so. In addition, he does not testify that there was any failure of service during the ACA period or that Missouri customers were ever at risk. Additionally, Mr. Sommerer has failed to explain why this risk is unique to AEM and why it is not a risk with other gas marketers. He has already acknowledged that other gas marketers have a majority of the business in Missouri when examined by customers or volumes. The documents Mr. Sommerer sought from AEM are unavailable for other gas marketers. Although Mr. Sommerer contends that his analysis hinges on the provision of these documents, I find it remarkable that he failed to request them during the course of the audit. In fact, Mr. Sommerer didn't seek these documents until approximately four months after Staff filed its recommended disallowance.

NOMINATIONS

Q. WHAT IS MR. SOMMERER'S SPECULATION WITH REGARD TO NOMINATIONS?

A. Mr. Sommerer hypothesizes that Atmos employees could somehow "game" the nominations process in order to allow AEM to bring in greater profits. Although he says he must scrutinize the full documentation of each and every nomination to ensure that the LDC has optimized its contracts to the maximum extent possible, Staff did not request detailed information about nominations until just a few weeks before its rebuttal was filed in June.

Q. WHAT PARTICULAR ISSUES DOES HE RAISE?

A. First, he questions what he has opted to label a "twin pricing feature." This type of pricing, using both first of the month and daily prices, is standard practice in the areas where Atmos operates and not a novel device created by Atmos or AEM. Next, he cites the 15 cent adder on the Haven contract as a "complicating factor." This, too, is a common contract mechanism and not unique to AEM.

He also points to what he characterizes as the "unusual provision" in the RFP materials that went out to vendors for the Hannibal and Butler deals stating that Atmos would not consider pricing factors when nominating. More precisely, he is referring to the statement: "Operational requirements will drive volume changes, not market prices." Mr. Sommerer states "Atmos offered no explanation for such an odd contract provision other than to say it was some sort of carry-over from many years ago and was of unknown origin." (Sommerer Rebuttal, p. 9, lines 18-20) This testimony is misleading in two ways. First, by characterizing the statement included in the RFP as "such an odd contract

1 provision,” Mr. Sommerer would have the Commission believe that this language is
2 unusual. However, it is yet another common provision for both supply and asset
3 management deals. This language does not mean that Atmos is “ceding” its rights as a
4 gas buyer, as Mr. Sommerer suggests. Second, Atmos *did* provide its explanation to
5 Staff in response to DR 124, which reads:

6 This phrase dates back at least to the 2003 Missouri RFPs, and
7 perhaps earlier. While specific supporting documentation was not
8 located, an Atmos employee, who previously worked in the Gas
9 Supply Department and has since relocated to another office,
10 remembers that this language was drafted by Mr. John Hack for the
11 Missouri 2001/2002 RFPs. Mr. Hack is retired from Atmos
12 Energy. The RFP language informed potential suppliers that
13 Atmos would not react to spot pricing for incremental purchases.
14 The intent was that by giving this assurance Atmos would receive
15 better pricing in the proposals. Also by using operational
16 requirements to drive purchases Atmos can better manage our
17 storage inventory, which was a concern expressed by Staff in a
18 prior ACA review.

19
20 Mr. Sommerer seems willing to indict any method, process or practice by which AEM
21 might potentially make a profit while completely ignoring the certainty of higher gas
22 costs that would have resulted if Atmos had elected to do business with bidders other
23 than AEM. It appears that he has lost the forest from the trees.

24 **Q. IS STAFF FAMILIAR WITH THE FUNCTIONING OF YOUR GAS SUPPLY**
25 **GROUP?**

26 A. Yes. Staff is very familiar with the gas supply function which is explained in detail in the
27 gas supply procedures manual that has been provided to Staff during every ACA audit.

28 **Q. HOW DOES YOUR GROUP GENERALLY DETERMINE THE VOLUMES TO**
29 **NOMINATE?**

1 A. To determine nominations, my group relies on forecasted and actual consumption. Gas
2 Supply uses a Supply Plan to make our first of the month base load purchases, as well as
3 our plan storage injections and withdrawals. Incremental purchases occur when the
4 system requirements exceed the baseload quantity, such as when the weather is colder
5 than forecasted. We buy daily gas to meet the additional demand requirements of our
6 customers.

7 **Q. DOES ATMOS USE A DIFFERENT METHOD FOR NOMINATING FROM AEM**
8 **THAN IT DOES FOR NOMINATING FROM OTHER MARKETERS?**

9 A. No.

10 **Q. WHEN MAKING NOMINATIONS, DO YOU CONSIDER HOW IT MIGHT**
11 **AFFECT THE PROFITS OF THE GAS MARKETER?**

12 A. No. I can state with absolute certainty that this is never a consideration when making
13 nominations with AEM or any other marketer.

14
15 **PROFIT AND LOSS**

16 **Q. DO YOU HAVE ANY GENERAL COMMENTS ABOUT STAFF'S USE OF**
17 **AEM'S PROFITS AS THE BASIS FOR A DISALLOWANCE?**

18 A. Staff is using AEM's profit on the commodity as a proxy for calculating a prudence
19 disallowance despite the fact that the transactions with AEM were conducted in full
20 compliance with the Commission's rules for affiliate transactions and Staff has presented
21 absolutely no evidence of imprudence. As Atmos has explained and Staff has
22 conveniently disregarded, the utility does not have the in-house capability to provide the
23 gas marketing services that AEM and other gas marketers provide to Atmos. To take the

1 information contained in AEM's response to a data request as a basis for a prudence
2 disallowance for AEC is to overlook three crucial facts. First, Staff completely ignores
3 any overhead costs of AEM which are additional costs that the utility would incur in
4 terms of personnel and processes necessary to provide the gas marketing services that
5 AEM and other marketers provide to Atmos. Second, Mr. Sommerer seems unable to
6 acknowledge the reality that gas marketers, both affiliated and non-affiliated, can have
7 greater purchasing power in the market than regulated utilities by virtue of the fact that
8 they may bundle their purchases into a comprehensive portfolio of business that can
9 include non-utility customers. The utility simply does not have the ability to take
10 advantage of similar efficiencies of scale meaning that the price that an LDC can obtain
11 in the natural gas markets is simply not the same as the price that a gas marketer can
12 obtain in the same market when purchasing gas for more than one customer.
13 Consequently, AEM's profits cannot be analyzed in a vacuum and separating their
14 business with the utility from their other portfolio purchases is a meaningless exercise
15 that ignores the realities of the market. The third and perhaps most important point that
16 seems absent from Staff's analysis is the fact that AEM provided the lowest bid. While
17 Mr. Sommerer can hypothesize many different scenarios pursuant to which AEC and
18 AEM could have possibly schemed to increase costs to ratepayers, he has failed to
19 acknowledge the fact that had AEC chosen another gas marketer, the costs to the
20 ratepayer would have definitely been higher.

21 **Q. CAN YOU EXPLAIN MR. SOMMERER'S REMARKS WITH REGARD TO THE**
22 **PERIOD FROM 2004 TO 2006?**

1 A. Yes. Mr. Sommerer testifies that during that time, Atmos “had a plan to form Atmos
2 Energy Services (AES) as a separate affiliate under Atmos Energy Holdings, AEM’s
3 parent, to supply gas to its LDCs [sic] no additional cost or mark-up.”(Sommerer
4 Rebuttal, p. 11 lines 3-5) The point Mr. Sommerer is attempting to make is that AES
5 would have provided the same services as AEM, without profit.

6 **Q. IS THAT AN ACCURATE CHARACTERIZATION?**

7 A. No. The reorganization that Mr. Sommerer refers to went beyond the planning stage.
8 For that short period of time from 2004 to 2006, the functions performed by gas supply
9 were actually moved under AES. Nothing changed vis-à-vis the costs to ratepayers,
10 however. Whether a part of AES or AEC, the gas supply group used the RFP process to
11 select gas marketers to provide gas service for the LDCs. It was never part of the plan for
12 gas supply to perform the functions of the gas marketers, nor did this ever actually
13 happen.

14 **Q. WHAT IS YOUR REACTION TO MR. SOMMERER’S CONTENTION THAT, IF**
15 **GRANTED BY THE COMMISSION, SHAREHOLDERS WOULD NOT BE**
16 **REQUIRED TO ABSORB THIS ADJUSTMENT?**

17 A. Like in so many other areas of this case, Mr. Sommerer is again simply ignoring the
18 reality of the situation. Atmos entered into a contract with AEM. A disallowance in
19 this case will not change this contract, nor will it entitle AEC to demand a refund from
20 AEM. There is simply no feat of accounting that would allow AEC to charge the
21 disallowance against a separate company with no impact to its shareholders. That is just
22 not how it works.

1 **Q. DO YOU HAVE ANY ADDITIONAL POINTS REGARDING THE IMPACT OF**
2 **A DISALLOWANCE?**

3 A. Yes. There is one last key point that Mr. Sommerer fails to address when discussing the
4 mechanics of how a disallowance would affect the Company. Due to its regulated nature
5 and obligation to ratepayers, the utility does not have the ability to take on the financial
6 risk that gas marketers shoulder in order for a chance to make a profit. Every gas
7 marketer Atmos selects has bid on the utility's business in order to have the opportunity
8 to make this profit. The utility selects the best option available from among marketers,
9 who then bear the risk of making a profit or loss on the deal. The fact that the supplier
10 makes money is irrelevant., AEC does not share in any marketer's profit or loss. Up until
11 now, Mr. Sommerer has brought up several hypothetical scenarios about how AEM
12 might have profited. Now I have a hypothetical question of my own: had AEM shown a
13 loss associated with its dealing in Missouri, would Mr. Sommerer remain true to his
14 contention that AEM's cost is the same as the utility's cost and find that the utility had
15 undercollected gas costs? Failure to recognize the possibility of a loss reflects a lack
16 of understanding of the function and associated risk a gas marketer provides.

17 **CONCLUSION**

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

19 A. Mr. Sommerer's testimony consists largely of speculation about what could have been
20 rather than analysis of what actually was. There is no evidence in the record to show that
21 Atmos gave preferential treatment to any bidder or that employees manipulated
22 nominations for personal profit. Mr. Sommerer continues to spin out fictional scenarios
23 in which he imagines that AEM has put Missouri customers at risk, despite of the fact

1 that there is no evidence that this ever happened. If each these scenarios were a
2 legitimate concern as Mr. Sommerer testifies, I am puzzled as to why many of them were
3 not seriously broached until after the Staff's recommended disallowance was already
4 filed. Staff has unabashedly ignored the reality of the gas procurement process as they
5 stretch to justify the disallowance after it was already quantified. Finally, I can say with
6 full assurance that not only is there no *appearance* of wrongdoing for personal gain on
7 the part of Gas Supply employees, that in fact there was no wrongdoing. Atmos
8 employees did not manipulate the RFP process in any way.

9 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

10 A. Yes, this concludes my testimony addressing Mr. Sommerer's rebuttal testimony filed on
11 June 14, 2010. Since then, Mr. Sommerer has given oral testimony and Staff has made
12 filings in response to Commission requests. Atmos respectfully reserves the reasonable
13 opportunity to address any additional matters not included in Mr. Sommerer's filed
14 rebuttal testimony during the evidentiary hearing if necessary.