

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

In the Matter of the Verified Application and )  
Petition of Atmos Energy Corporation to Change its ) **Case No. GO-2011-\_\_\_\_\_**  
Infrastructure System Replacement Surcharge ) Tariff Tracking No. \_\_\_\_\_

**VERIFIED APPLICATION AND PETITION  
OF ATMOS ENERGY CORPORATION TO CHANGE ITS  
INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE**

**COMES NOW** Atmos Energy Corporation ("Atmos" or "Company"), pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Missouri Public Service Commission ("Commission") Rules 4 CSR 240-2.060, 2.080 and 3.265 and, for its Verified Application and Petition to Change its Infrastructure System Replacement Surcharge, respectfully states as follows:

**I. BACKGROUND**

1. Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri and Commission Rule 4 CSR 240-3.265 authorize eligible gas corporations to recover certain infrastructure replacement costs through the implementation of an infrastructure system replacement surcharge ("ISRS"). Atmos' original ISRS was established effective November 4, 2008 by Commission Order in Case No. GO-2009-0046, covering ISRS eligible investments made in natural gas utility plant projects through March 2008. Atmos' ISRS was changed in Case No. GO-2010-0168, to recover costs related to eligible plant placed in service from April 1, 2008, through June 30, 2009. In the Company's most recent general rate case proceeding, Case No. GR-2010-0192, as required by Commission rules, its ISRS was reset to zero upon the effective date of new rates in that proceeding, September 1, 2010.

2. The Company has continued to incur ISRS costs. For the period from March 1, 2010 through September 30, 2010 those costs result in additional annualized ISRS revenues that exceed one-half of one percent of Atmos' base revenue level approved by the Commission in Atmos' most recent general rate proceeding -- the threshold necessary to make an ISRS filing. Accordingly, Atmos submits this Application and Petition to change its ISRS to reflect these additional costs.

## II. THE APPLICANT

3. Atmos is a corporation duly organized, validly existing and in good standing in all respects under the laws of the State of Texas and Commonwealth of Virginia, with its principal office and place of business at 5430 LBJ Freeway, Dallas, Texas 75240. Atmos is authorized to conduct business in the State of Missouri and is engaged in the distribution and retail sale of natural gas in those areas of Missouri certificated to it by the Commission.

4. A certified copy of Atmos' certificate of authority to do business as a foreign corporation in Missouri was filed with the Commission in Case No. GR-2006-0387, and said document is incorporated herein by reference in accordance with 4 CSR 240-2.060(1)(G) and made a part hereof for all purposes. Atmos is a "gas corporation" and a "public utility" as those terms are defined in Section 386.020 of the Revised Statutes of Missouri and as such is subject to the jurisdiction of the Commission as provided by law.

5. Communications in regard to this Application should be addressed to:

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6. Atmos may have pending actions against it involving customer service or rates having occurred within three (3) years from the date of this Application in certain of the jurisdictions in which it provides service, but none in Missouri. Atmos has no annual report or assessment fees that are overdue.

### **III. THE ISRS REQUEST**

7. With this application, Atmos requests an adjustment to its ISRS rate schedule that provides for the recovery of costs incurred in connection with ISRS-eligible infrastructure system replacements made during the period beginning March 1, 2010 through September 30, 2010. In accordance with the provisions of Sections 393.1009-1015 and 4 CSR 240-3.265, the revised ISRS rate schedule reflects the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to Atmos' weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements during this period that are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with eligible infrastructure system replacements that were included in Atmos' currently effective ISRS. Atmos also seeks to recover all state, federal and local income or

excise taxes applicable to such ISRS income and to recover all other ISRS costs such as depreciation expense and property taxes due within 12 months of this filing.

**A. Eligibility of Costs**

8. The infrastructure system replacements for which Atmos seeks ISRS recognition are set forth on Appendix A, which is attached hereto and made a part hereof for all purposes. The infrastructure system replacements listed on Appendix A are eligible gas utility plant projects in that they are either: a) mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition; or b) main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life, or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; or c) unreimbursed infrastructure facility relocations due to the construction or improvement of a highway, road, street, public way or other public work required by or on behalf of the United States, the State of Missouri, a political subdivision of the State of Missouri, or another entity having the power of eminent domain.

9. Capital data used for the ISRS filing was reported directly from Atmos Energy's plant accounting system. Atmos Energy's plant accounting is project based. Each project placed in service in Missouri was reviewed to ensure that it was an eligible "gas utility plant project" as defined in Section 393.1009 of the Missouri Revised Statutes. This review was facilitated through the use of several data elements maintained for each project in the plant accounting system. The In Service Date was used to eliminate any projects that did not fall within the filing window of the ISRS. The Budget Category field was used to eliminate projects that did not fall into the categories of System Integrity, System Improvements, Public Improvements, and

Maintenance. The Project Description was reviewed to ensure that the project was consistent with the intent of the ISRS. The Business Segment field was used to assign the cost to the appropriate rate division. And finally, the FERC Activity Code determined whether the costs were for an addition or a retirement.

10. The data for additions is presented in Appendix A Schedule 1, and for retirements in Appendix A Schedule 2. In each schedule the data by project is summarized for each rate division at the utility account level, with the in service date and addition amount provided for the project. The Accumulated Depreciation is calculated by multiplying the Monthly Depreciation Rate by the number of Months the asset has been in service. The Depreciation Expense column contains the annual depreciation expense for the asset. Sub-total rows are provided for each rate division and class of assets.

11. The assets selected were assigned a 15 year MACRS class life. According to the Internal Revenue Code, these assets are permitted to be depreciated over 15 years, 150%, double declining balance, half year convention.

12. In addition to the above, the Internal Revenue Code section 167(a) permits 50% bonus depreciation on assets placed in service after 12/31/07 and before 01/01/11. This bonus depreciation is a 50% write down of the cost basis of the asset. Thus an asset added for \$100 on 01/15/08 would be permitted to expense \$50 in the year it was added.

13. In addition to meeting the foregoing criteria, the infrastructure system replacements listed on Appendix A are also eligible for ISRS treatment because they: a) did not increase revenues by directly connecting to new customers; b) are currently in service and used and useful; c) were not included in Atmos' rate base in its most recently completed general rate case, and d) replaced and/or extended the useful life of existing infrastructure.

14. Finally, the infrastructure system replacements listed on Appendix A are eligible for ISRS treatment in accordance with the Unanimous Stipulation and Agreement (“Stipulation”) approved in Atmos’ last general rate case proceeding, Case No. GR-2010-0192, which limited qualifying additions to those subsequent to February 28, 2010.

**B. Rate Schedules, Calculations and Supporting Documentation**

15. Attached hereto as Appendix B is the rate schedule, with supporting documents, proposed by Atmos in order to establish the ISRS to reflect the additional ISRS eligible investments made by Atmos that were not included in its previous ISRS filing. This proposed rate schedule, on an annualized basis, will produce ISRS revenues of at least one-half of one percent of Atmos’ base revenue level approved by the Commission in Atmos’ most recent general rate proceeding, but not in excess of ten percent of Atmos’ base revenue level.

16. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes current local, state, and federal income tax rates through a combined income tax rate conversion factor of 1.64103.

17. In determining the appropriate pre-tax ISRS revenues, and in accordance with the Stipulation in Case No. GR-2010-0192, the proposed rate schedule utilizes a Return on Equity of 10.0 percent and a capital structure and debt costs as filed by the Commission’s Staff in that proceeding.

18. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes depreciation rates currently applicable to the eligible infrastructure system replacements as found in the Partial Non-Unanimous Stipulation and Agreement, Attachment B, dated November 29, 2006, Case No. GR-2006-0387.

19. Section 393.1015.5(1), RSMo. provides:

5. (1) The monthly ISRS charge may be calculated based on a reasonable estimate of billing units in the period in which the charge will be in effect, which shall be conclusively established by dividing the appropriate pretax revenues by the customer numbers reported by the gas corporation in the annual report it most recently filed with the commission pursuant to subdivision (6) of section 393.140, and then further dividing this quotient by twelve. Provided, however, that the monthly ISRS may vary according to customer class and may be calculated based on customer numbers as determined during the most recent general rate proceeding of the gas corporation so long as the monthly ISRS for each customer class maintains a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class. (Emphasis added).

As the criteria for its customer class designations recently changed as a result of Case No. GR-2010-0192, Atmos is using those customer numbers and classes utilized to set rates in Case No. GR-2010-0192.

20. In determining the appropriate monthly ISRS charge, the proposed rate schedule is based on a reasonable estimate of billing units in the period in which the charge will be in effect, which is derived by dividing the appropriate pre-tax revenues, as calculated above, by the customer numbers used to set rates for Atmos in its most recently completed general rate proceeding, and then further dividing this quotient by twelve. (See Appendix B, Schedule 4). The monthly ISRS charge is apportioned between customer classes and the rate districts in the same manner utilized in setting rates in Atmos' most recently completed general rate proceeding (Stipulation, Appendix A, Case No. GR-2010-0192).

#### IV. ADDITIONAL INFORMATION

21. Appendix C Attachment 2 provides a copy of the one-time customer notice notifying customers of the ISRS charge to be sent with the initial bills containing the ISRS, as

well as a copy of the annual notice Atmos will provide to affected customers each year explaining the ISRS and what it is designed to recover.

22. Updated information informing customers of the ISRS will be posted on Atmos' website and an example of the text is provided in Appendix C Attachment 3. The information on this page of the website will reflect the information provided in the bill inserts.

23. Talking points and scripts for the customer call center employees are provided in Appendix C Attachment 4.

24. An example customer bill showing how the ISRS is described on affected customers' bills is provided in Appendix C Attachment 5.

25. Atmos is also not certain if this matter would be considered a "contested case" under the recently enacted 4 CSR 240-4.020 (Ex Parte and Extra Records Communications Rule). However, to the extent that a 60-day Notice of Filing would otherwise be required under 4 CSR 240-4.020(2), Atmos respectfully requests that the notice requirement contained in 4 CSR 240-4.020(2) be waived since it was not known that it would be filing this Application sixty (60) days prior to the date that this Application and Petition is being filed.



**WHEREFORE**, pursuant to 393.1015.2(3) and Commission Rule 3.265(12), Atmos Energy Corporation respectfully requests that the Commission issue an Order, effective as soon as reasonably possible, approving Atmos' ISRS rate schedules in order to provide for the recovery of the eligible infrastructure system replacement investments made by Atmos from March 1, 2010 through September 30, 2010, and granting such other relief as may be necessary and appropriate to accomplish the purposes of Sections 393.1009 through 393.1015.

Respectfully submitted,

**/s/ Larry W. Dority**

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ATTORNEYS FOR ATMOS ENERGY CORPORATION

**CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing Application and Petition was served on the General Counsel of the Staff of the Missouri Public Service Commission and the Office of the Public Counsel on this 22<sup>nd</sup> day of November, 2010 by hand-delivery, fax, electronic or regular mail.

/s/ Larry W. Dority  
Larry W. Dority

