Exhibit No.: Ex No. 6
Issue: Rebuttal Positions on Various Issues
Witness: Patricia J. Childers
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2006-0387
Date Testimony Prepared: October 31, 2006

PF 11-30-06

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2006-0387

PREPARED REBUTTAL TESTIMONY

OF

PATRICIA J. CHILDERS

On Behalf of

ATMOS ENERGY CORPORATION

October 2006

Atmos Exhibit No. 6
Case No(s). GR-2006-0387
Date 11-30-06 Rptr PF

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 PATRICIA J. CHILDERS

STATE OF TENNESSE)
) ss
COUNTY OF WILLIAMSON)

Patricia J. Childers, being first duly sworn on his oath, states:

1. My name is Patricia J. Childers. I work in Franklin, Tennessee and I am employed by Atmos Energy Corporation as the Vice President of Rates and Regulatory Affairs for the Kentucky/Mid-States division of Atmos Energy Corporation.

2. Attached hereto and made part hereof for all purposes is my Rebuttal Testimony on behalf of Atmos Energy Corporation consisting of nine (9) 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.

Patricia J. Childers

Subscribed and sworn before me this 30th day of October, 2006.

Notary Public

STATE OF TENNESSEE NOTARY PUBLIC DAVIDSON COUNTY, TENN.

My commission expires May 24, 2008

My Commission Expires 05-24-08

BEFORE THE

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2006-0387

PREPARED REBUTTAL TESTIMONY

OF

PATRICIA J. CHILDERS

On Behalf of

ATMOS ENERGY CORPORATION

I. POSITION

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

A. My name is Patricia J. Childers. I am Vice President – Rates & Regulatory Affairs for Atmos Energy Corporation's Kentucky/Mid-States operations which includes Atmos' Missouri operations. My business address is 810 Crescent Centre Drive, Suite 600, Franklin, Tennessee 37067-6226.

Q. Did you present Direct Testimony in this proceeding?

A. Yes. I presented Direct Testimony in this docket on April 7, 2006. The direct testimony addressed how the Company has satisfied the Commission's minimum filing requirements; supported the Company's request to recover the gas cost portion of uncollectibles through the purchased gas adjustment clause; supported the rate design and rates proposed by Company in this filing; and supported the Company's request to partially consolidate the base rates and fully consolidate the purchased gas adjustment for the six Missouri areas served by Atmos.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address certain issues raised by various Commission Staff ("Staff") witnesses in their direct testimony filed on September 13, 2006 (revenue requirements) and September 26, 2006 (rate design).

Q. Did the Office of Public Counsel (OPC) file any testimony regarding the revenue requirement in this proceeding?

A. No. OPC has not filed any testimony in this case regarding the overall revenue requirement. The only two issues raised by OPC in this proceeding are rate design and class cost of service. Gary Smith will present Atmos' position regarding OPC's direct testimony in his rebuttal testimony.

III. ISSUES RAISED BY STAFF

Q. What issues have been raised by Staff that you would like to address?

A. My rebuttal testimony will address the following issues raised by Staff in its direct testimony: overall rate design; customer classes; consolidation of base rate districts; consolidation of purchased gas adjustment ("PGA") districts; PGA filing requirements; miscellaneous utility related charges; reconnection charges; reporting related to seasonal shut-offs; economic development rider; transportation tariffs; lost & unaccounted for gas; main extension tariffs; customer service support center reporting and customer education; and the impact of these items on the Company's overall revenue requirement.

Q. Did the Company review Commission Staff witness Anne Ross' Delivery Charge rate design proposal?

A. Company witness Gary Smith has analyzed Commission Staff's direct testimony related to rate design and offers a detailed analysis of how it compares to the Company's proposal in this proceeding.

Q. In summary what is Atmos' reaction to Staff's proposal?

A. Atmos views Staff's Delivery Charge proposal favorably and is willing to accept it with the minor modifications discussed in Mr. Smith's rebuttal testimony. Atmos believes that Staff's proposed Delivery Charge in the context of this proceeding would provide the Company with the ability to continue to operate at the overall level of revenue that the Company's current tariffs are designed to collect.

Q. Are you saying that the Company would accept no overall rate increase if the Commission were to accept Commission Staff's rate design proposal?

A. After careful analysis, Atmos, in connection with the additional issues that I will discuss later in my testimony, would accept no revenue increase in this proceeding if the Commission were to accept the Delivery Charge rate design as described in Commission Staff witness Ann Ross' direct testimony.

Q. What is Atmos' response to Commission Staff's position regarding customer classes?

A. I have reviewed Commission Staff witness Ross' proposed customer classes (Page 5; Line 11-23 of Ms. Ross' direct testimony) including the proposal to split the general service class into a small and medium non-residential customer class

and setting the classes on a uniform basis across the entire state and have concluded that it would be appropriate to have statewide classes on a uniform basis and to break the non-residential general service into a small class and medium class. I have also read Ms. Ross' proposal regarding the interruptible sales class (Ross page 7 beginning on line 9 and continuing to page 8, line 9) and do not oppose Staff's recommendations regarding interruptible sales service. I would note that a change to interruptible sales should not impact any existing special contract transportation customers on Atmos' system.

Q. What is Atmos' response to Staff's position regarding base rate consolidation, PGA consolidation and the additional PGA minimum filing requirements proposed by Staff?

A. After careful consideration of Staff's testimony on these issues, Atmos finds them acceptable. Staff's proposal to consolidate base rates into three geographic areas (Ross; page 4; lines 7-18 and page 5; lines 1-4) is very similar to what I offered in my direct testimony (page 11; lines 5-10; page 13 lines 9-29). Staff's proposal to consolidate the PGA into four areas (Staff witness Imhoff; page 8 line 13-26; page 9 lines 1-8) is also acceptable to Atmos. Although Atmos proposed a statewide consolidation in regards to the PGA, consolidation of the four areas identified by Staff's direct testimony is certainly an important step in the right direction. Finally, Atmos does not object to filing the information requested by Staff witness Phil Lock in Schedule 3 to his direct testimony at the time of its annual ACA filing.

Q. What is Atmos' response to Commission Staff's position regarding reconnection fees and other miscellaneous utility-related charges?

A. Atmos is willing to accept Commission Staff Witness Ensrud's recommendations related to miscellaneous utility-related charges and his recommendation regarding a reconnection fee to offset any Delivery Charge's avoided by customers due to being disconnected from the system. Mr. Ensrud's miscellaneous utility-related charges are outlined in his testimony on page 3, line 6 (NSF fee $15); page 5, line 14 (connection/reconnection); page 6, line 1 (transfer of service). Mr. Ensrud's avoided delivery charge reconnection proposal is outlined in his testimony beginning on page 18 (line 5) and continuing to page 20 (line 6). The avoided delivery charge would be a combination of the standard reconnection fee plus a formula that determines the actual delivery charges avoided by disconnecting service for a number of months during the year. In addition, the Company is willing to provide annual reporting to the Commission regarding voluntary (seasonal) shut-off's as determined by service order codes in the Company's billing system. The purpose of this reporting will be to try and assist in ascertaining any impacts to customers resulting from the implementation of the Delivery Charge rate design.

Q. Are there any areas which you would like to point out where the Company and Staff have taken consistent positions in their filed cases?

A. Yes. I would point out that Mr. Ensrud's testimony appears to support Atmos' proposed Economic Development Rider (Atmos Witness Kerley, page 2 and following). Mr. Ensrud's position is also consistent with Atmos' position

regarding changes to our transportation tariffs (Kerley, page 3, line 16 and following), although Mr. Ensrud does propose some minor changes to the "cash-out" provisions of the transportation section ((Ensrud page 10, line 6-20). Atmos has no objection to incorporating this additional language into its transportation tariffs. Mr. Ensrud also appears to support Atmos' proposal to have a uniform lost & unaccounted (L&U) for rate of 2% as described on page 56 of Atmos' proposed tariff's in this proceeding (Ensrud page 11, line 11), although Mr. Ensrud does qualify his position on L&U with some reporting conditions that he believes should be imposed on the Company (Ensrud starting at page 11, line 16 and continuing to page 12, line 4).

Q. Does Atmos agree with Mr. Ensrud's recommendations that the Commission impose fines if his concerns related to L&U are not alleviated?

A. No. Atmos believes that any concerns related to L&U can be addressed through reporting. However with a large number of interconnection points from upstream pipelines and nearly 60,000 delivery points out of the system, it is an issue that cannot be quickly resolved. Atmos is committed to keeping Staff informed of its progress in getting this issue resolved in a cooperative manner.

Q. Are there other areas of consistency between Staff and Company's filed positions?

A. Mr. Ensrud advocates only one exception to the Company's main extension policy by proposing additional language on page 14, line 5-20 of his testimony regarding refunds. Atmos accepts Commission Staff's position and is willing to add the language to the final tariffs approved in this case. Additionally, as Mr. Ensrud points out on the same page, line 23-28, certain language was unintentionally deleted by Company when preparing tariffs for filing. Atmos will

re-insert this language (as identified in Staff DR No. 116) when finalizing tariffs in this proceeding.

Q. What is the Company's response to Staff's recommendations regarding the customer support center?

A. Commission Staff witness Lisa Kremer makes three specific recommendations concerning the customer support center on page 18 of her testimony. I have considered each and my response is as follows: First, Atmos accepts Staff's proposal that the new proposed maximum abandoned call rate (ACR) not exceed 9% and the average speed of answer (ASA) should not exceed 119 seconds. Second, Atmos does not object to filing the statistics now reported on a quarterly basis on a monthly basis following the conclusion of this docket. Further, Atmos will keep the Commission and Staff informed of all plans to improve the performance of call center services to Missouri customers as well as to inform the Commission of any operational changes that would involve the answer of Missouri customer's phone calls by Atmos' Waco customer service support center. Lastly, Atmos will formalize and file with the Commission the data request responses submitted to Staff related to disaster recovery plans at the Company's three customer support centers.

Q. Would the Company be willing to conduct any customer education efforts in conjunction with the implementation of the Staff's proposed Delivery Charge Rate Design?

A. Yes. As suggested by Staff witness Ross (page 15, line 6 – 14), customer education would be necessary to explain the Delivery Charge. The Company

would accomplish this customer education through bill inserts, information on its website, and Q&A scripts for the customer support agents designed to ensure that customers get the information they need.

Q. Have any other customer education issues been raised informally in the docket?

A. Yes. Company and Staff have discussed issues related to budget billing. In order to address possible customer confusion regarding the requirements of remaining on budget billing, the Company is willing to increase its customer education efforts related to the benefits and requirements of budget billing. This will include bill insert information, information on the Company's website, and if a request to be placed on budget billing is received by a customer call center agent, the customer will be informed that payments must be made in a timely basis, and be for at least the amount due on the bill in order to retain budget bill status. Finally, once a year, the company will include budget billing information with bills reminding customers of the requirements of budget billing.

Q. Are their any specific revenue requirement issues that need to be addressed by the Commission?

A. Yes. Staff Witness Guy Gilbert makes recommendations regarding depreciation and the Company's continuing property records (beginning on page 8 at line 18 and following). Atmos finds these recommendations acceptable, with the exception of the non-compliance recommendation (page 9, line 3-6) which suggests that the Commission should order Company to comply with the Commission's rules regarding plant record keeping and that Company should be ordered to file data to demonstrate compliance. The Company believes that the non-compliance recommendation should be limited to the continuing property records that were converted from prior acquisitions. The Company is willing to address the vintage portion of the records related to assets that were converted out of legacy systems of prior predecessor companies into Atmos plant record system and to prepare a plan to resolve the problem. Further, Atmos is willing to meet with Staff and obtain their concurrence that the plan will resolve Staff's concerns,

as well as submit a completion report. If the improvement plan is not completed by the end of the first quarter following completion of this docket, Atmos would file quarterly status reports with the Staff until the plan is completed.

Q. What about the FAS 106 issue raised by Staff witness Hagemeyer?

A. As mentioned on page 13 of Mr. Hagemeyer's testimony, the Company has agreed to calculate and then fund a "catch-up" contribution to address funding not made since Atmos' purchase of United Cities Gas Company in 1997 and Associated Natural Gas in 2000.

Q. Please summarize the Company's rebuttal testimony to Staff's direct testimony.

A. Company has thoroughly reviewed and compared its direct case with Staff's direct case, analyzed and compared the various adjustments to the test period in both cases and considered the impact of the Staff's proposed rate design in connection with the other issues I have addressed in my rebuttal to Staff's direct testimony. Company has concluded after this analysis that if the Commission approves Staff's proposed rate design and resolves the other issues in a manner consistent with Company's position as described in this rebuttal testimony, that it will have a reasonable opportunity to earn a fair return at the revenue requirement that its current tariffs are designed to collect.

Q. Does this conclude your testimony?

A. Yes.

Exhibit No.: Ex No. 7
Issue: Rebuttal Positions on Various Issues
Witness: Patricia J. Childers
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Atmos Energy Corporation
Case No.: GR-2006-0387
Date Testimony Prepared: November 13, 2006

PF 11-30-06

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2006-0387

PREPARED SURREBUTTAL TESTIMONY

OF

PATRICIA J. CHILDERS

On Behalf of

ATMOS ENERGY CORPORATION

November 2006

Atmos Exhibit No. 7
Case No(s). GR-2006-0387
Date 11-30-06 Rptr PF

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 PATRICIA J. CHILDERS

STATE OF TENNESSE)
) ss
COUNTY OF WILLIAMSON)

Patricia J. Childers, being first duly sworn on his oath, states:

1. My name is Patricia J. Childers. I work in Franklin, Tennessee and I am employed by Atmos Energy Corporation as the Vice President of Rates and Regulatory Affairs for the Kentucky/Mid-States division of Atmos Energy Corporation.

2. Attached hereto and made part hereof for all purposes is my Surrebuttal Testimony on behalf of Atmos Energy Corporation consisting of seven (7) 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.

[signature]
Patricia J. Childers

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

[signature: Pamela Todd]
Notary Public

PAMELA TODD STATE OF TENNESSEE NOTARY PUBLIC WILLIAMSON COUNTY

My commission expires May 21, 2008

My Commission Expires 05-21-08

BEFORE THE

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2006-0387

PREPARED SURREBUTTAL TESTIMONY

OF

PATRICIA J. CHILDERS

On Behalf of

ATMOS ENERGY CORPORATION

I. POSITION

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

A. My name is Patricia J. Childers. I am Vice President – Rates & Regulatory Affairs for Atmos Energy Corporation's Kentucky/Mid-States operations which includes Atmos' Missouri operations. My business address is 810 Crescent Centre Drive, Suite 600, Franklin, Tennessee 37067-6226.

Q. Are you the same Patricia J. Childers who previously filed Direct and Rebuttal Testimony in this case?

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

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to address certain issues raised by the Office of the Public Counsel (OPC) in Rebuttal Testimony filed on October 31,

2006. I will also address issues raised by Commission Staff witnesses in rebuttal testimony filed on October 31, 2006.

Q. Is Atmos filing any other surrebuttal testimony?

A. Yes. Gary Smith will be addressing the rate design issues raised by OPC. Dr. Donald Murry will be addressing the return on equity in the context of Atmos and Commission Staff both having a common recommendation regarding the revenue requirement.

Q. After reviewing Staff's rebuttal testimony is it your opinion that Atmos and Staff have reached a common ground with respect to the issues in this case?

A. Yes. After reviewing Staff's rebuttal testimony, it appears that the Staff and Company have no areas of disagreement remaining in this case. Specifically with regard to the overall revenue requirement, I would note the consistency between my rebuttal testimony on page 3, line 13-18, and Staff witness Stephen M. Rackers' rebuttal testimony page 2, lines 16-18, where he states, "The Staff believes that no change in cost of the service, on a total company basis, will still result in just and reasonable rates as a result of this case." Given Atmos' and Staff's agreement on the revenue requirement and the additional items outlined in my rebuttal testimony, Atmos is concerned with issues raised by the OPC and my surrebuttal testimony will focus on those issues.

III. ISSUES RAISED BY OPC IN SURREBUTTAL

Q. What issues have been raised by OPC that will be addressed in Atmos' surrebuttal testimony?

A. Atmos' surrebuttal testimony will address the following issues raised by OPC in its rebuttal testimony: rate of return (Dr. Murry); Depreciation; Rate Design-Delivery Charge (Smith); Rate Design-Rates by Class; Rate Area Consolidation; and Miscellaneous Utility Charges.

Q. What is Atmos' concern with the Deprecation issue raised by Mr. Trippensee?

A. Mr. Trippensee has selectively pulled this item out of the revenue requirement to dispute. As indicated in my rebuttal testimony (page 8, line 16 and following), Atmos is committed to working with Staff to resolve the issues raised by Staff witness Guy Gilbert. It is anticipated that resolution of these issues will be completed prior to the next case filed by Atmos and that the 'negative amortization' issue that Mr. Trippensee finds objectionable will no longer be an issue.

Q. What is Atmos' concern with the Ms. Meisenheimer's rate consolidation and rate design proposal regarding rates?

A. As indicated her direct testimony, Ms. Meisenheimer's position is that existing classes and rate districts should be maintained and she is opposed to any type of consolidation. In addition, she proposes in her direct testimony (page 2, line 20 and following) that rate design issues be spun off to another docket. The Company believes that this rate case is clearly the most appropriate forum to address these issues.

Q. Would a separate docket be an efficient use of all of the resources of the parties?

A. No. The parties have invested considerable amount of time and resources addressing the issues in this docket, including Staff's CCOS analysis which provides a basis for establishing rates on a cost supported basis.

Q. What have you done to address the concerns raised by Ms. Meisenheimer?

A. Utilizing Staff's billing determinants in this case, I have developed a set of rates based on uniform statewide classes and non-base rates in three geographic areas utilizing the sculpted residential Delivery Charge rate design proposed by Mr. Smith in his rebuttal testimony and the Delivery Charge rate design proposed by Ms. Ross for small and medium non-residential general classes. I then evaluated the impact of these rates on each of Atmos' existing rate districts and the residential, small general, and medium general classes within each district. Attached to my surrebuttal testimony is PJC SURREB – 1 which is a summary of the rates that would be implemented if these rates, which are consistent with both Atmos' and Staff's positions, are adopted by the Commission. Also attached to my surrebuttal testimony is PJC SURREB -2 which is the class level impact.

Q. Do you have any concerns regarding Ms. Meisenheimer's testimony concerning PGA consolidation?

A. Yes. Ms. Meisenheimer also opposes any PGA consolidation. As I indicated in my rebuttal testimony (page 4, line 10 and following), the Company concurs with Staff witness Tom M. Imhoff's proposal to consolidate PGA's into four areas. Although the four PGA areas don't align exactly (Kirksville is the exception) with the geographic non-gas rates, they are substantially the same in most areas, and therefore the benefits of bill comparability will be achieved if the Commission

adopts the four areas as recommended by Staff and Atmos. Consequently, the Company believes that OPC's 'status quo' regarding PGA's should be rejected.

Q. What is Atmos' response to OPC's recommendations regarding miscellaneous utility charges?

A. Although Ms. Meisenheimer does not offer any type of adjustment to the Company's revenue requirement to adjust for seasonal customers, she believes that it is appropriate to allow customers to disconnect during the non-winter months and not pay for the costs associated with providing utility service. Her arguments against collecting lost revenue as a result of seasonal customers leaving the system would be more consistent if she made some type of adjustment to the non-gas revenue to account for the lost revenue. However, Ms. Meisenheimer has not proposed any such adjustment and she appears to simply expect the Company to absorb the lost revenue despite the fact that fixed costs remain the same during the seasonal customer's absence. It is the Company's position that the Commission should reject her position and adopt the miscellaneous utility charges recommended by Staff Witness Ensrud.

Q. Is the Company in agreement that customer education is important in regards to the Delivery Charge rate design proposal?

A. Yes. As I indicated in my rebuttal testimony (page 7, line 20 and following), the Company is committed to educating customers about the the Delivery Charge prior to and during implementation to ensure that they are aware of it and assist in their understanding of it.

Q. Should the Commission be concerned with Ms. Meisenheimer's contention that "...Atmos' customers have not been appropriately notified that this

drastic departure from traditional rulemaking is being proposed in this case?"

A. No. Atmos and the Commission have complied with all Commission requirements related to customer notice in this case.

Q. Are their any issues in the Company's rebuttal testimony that need clarification?

A. Yes, there is an issue regarding one of Staff witness Lisa Kremer's proposals concerning the call center on p. 18 of her direct testimony. In my rebuttal testimony (page 7, lines 7-9), I characterized the recommended call center metrics (ACR and ASA) as being "new". However, these performance measures were established by a unanimous stipulation and agreement in Case No. GM-2000-312 which was approved by the Commission at the time of Atmos' acquisition of Associated Natural Gas (ANG). The Company acknowledges this fact, and accepts Staff recommendation to continue these metrics at the stated levels (Kremer Direct, page 18) going forward.

Q. Are there any additional issues that you would like to address?

A. Yes, I would like to point out that, as agreed with Staff, Atmos has made the FAS 106 contribution of $1,275,000 as recommended by Mr. Rackers in his rebuttal testimony (page 3). In addition, the Company has reviewed Staff witness Anne Ross' rebuttal testimony (page 11) encouraging the Company to initiate an energy audit program which would be made available to all residential customers. Ms. Ross also recommends the development of a home weatherization program for at least 30 low income customers on an annual basis. Atmos agrees to implement these programs as described by Staff.

Q. Please summarize the Company's position in this case.

A. As I mentioned in my rebuttal testimony, the Company has thoroughly reviewed and compared its direct case with Staff's direct case, analyzed and compared the various adjustments to the test period in both cases and considered the impact of the Staff's proposed rate design in connection with the other issues I have addressed in my rebuttal to Staff's direct testimony. Company has concluded

after this analysis that if the Commission approves Staff's proposed rate design and resolves the other issues in a manner consistent with Company's position as described in my rebuttal testimony, that it will have a reasonable opportunity to earn a fair return at the revenue requirement that its current tariffs are designed to collect. The Commission should reject all recommendations made by the OPC in this case that are inconsistent with the rebuttal positions taken by Atmos and Staff.

Q. Does this conclude your testimony?

A. Yes.

Atmos Energy Corporation
Docket No. GR-2006-0387
Rate Design Utilizing Atmos and Staff's Rebuttal Positions

Line No.	District/Class	Staff Billing Determinants with MGS broken out				Atmos Proposed Residential, SGS, MGS Rate Design							
						Summer		Winter		Annual Delivery Chg.	Annual Volumetric		Annual Volumetric
		Revenues	Customer Bills	CCF's Usage	Delivery Charge	Del.Chg.	Revenue	Del.Chg.	Revenue	Revenue	Revenue	Total Revenue	Rate/ccf
1	**Old Butler (71)**												
2	Residential	$722,109	38,677	2,514,034									
3	Small Gas Service	305,618	4,854	362,367									
4	Medium Gas Service	0	1,248	843,793									
5													
6	**Old Greeley (29)**												
7	Residential	$126,374	4,982	317,869									
8	Small Gas Service	31,522	622	34,847									
9	Medium Gas Service	0	60	20,704									
10													
11	**"Butler" Rate District**												
12	Residential	$848,483	43,659	2,831,903	$19.43	$15.00	$377,325	$25.46	$471,158	$848,483		$848,483	
13	Small Gas Service	340,140	5,476	397,214	$19.43	$19.43	$62,056	$19.43	$44,333	$106,389		106,399	
14	Medium Gas Service	0	1,308	864,497		$75.00	$57,225	$75.00	$40,875	$98,100	$135,641	233,741	$0.15690
15	Total "Butler" Rate District	$1,188,623	50,443	4,093,614			$496,616		$556,366	$1,052,982	$135,641	$1,188,623	
16													
17	**Kirksville (70)**												
18	Residential	$728,728	61,049	4,018,470									
19	Small Gas Service	337,966	7,770	735,263									
20	Medium Gas Service	0	2,688	1,793,757									
21													
22	**Palmyra (97P)**												
23	Residential	$208,246	14,747	997,810									
24	Small Gas Service	76,562	1,698	320,876									
25	Medium Gas Service	0	480	292,745									
26													
27	**Old UCG (excl Neelyville) (97U)**												
28	Residential	$3,360,356	132,685	9,487,300									
29	Small Gas Service	1,316,404	12,949	1,507,597									
30	Medium Gas Service	0	4,884	3,481,038									
31													
32	**"Northeast" Rate District**												
33	Residential	$4,297,330	208,481	14,503,560	$20.61	$15.00	$1,801,500	$28.24	$2,495,830	$4,297,330		$4,297,330	
34	Small Gas Service	1,730,932	22,417	2,563,736	$20.61	$20.61	$289,508	$20.61	$192,506	$482,014		482,014	
35	Medium Gas Service	0	8,052	5,567,540		$75.00	$352,275	$75.00	$251,625	$603,900	$665,018	1,268,918	$0.11945
36	Total "Northeast" Rate District	$6,028,262	238,950	22,634,856			$2,423,283		$2,939,961	$5,383,244	$665,018	$6,028,262	
37													
38	**Old Southeast Missouri (72)**												
39	Residential	$5,139,948	370,881	20,204,770									
40	Small Gas Service	1,956,489	41,053	4,609,245									
41	Medium Gas Service	0	9,876	5,413,359									
42													
43	**Neeleyville (na)**												
44	Residential	$88,528	4,842	211,327									
45	Small Gas Service	39,710	825	101,991									
46	Medium Gas Service	0	0	0									
47													
48	**"Southeast" Rate District**												
49	Residential	$5,228,476	375,723	20,416,097	$13.92	$10.00	$2,163,440	$19.23	$3,065,036	$5,228,476		$5,228,476	
50	Small Gas Service	1,996,199	41,878	4,711,236	$13.92	$13.92	$340,049	$13.92	$242,892	$582,941		582,941	
51	Medium Gas Service	0	9,876	5,413,359		$75.00	$432,075	$75.00	$308,625	$740,700	$672,558	1,413,258	$0.12424
52	Total "Southeast" Rate District	$7,224,675	427,477	30,540,692			$2,935,564		$3,616,553	$6,552,117	$672,558	$7,224,675	
53													

Atmos Energy Corporation
Docket No. GR-2006-0387
Calculation of Change in Total Bill

Currently Effective Rates (PGA's based on 11-2006 Filing)

Line	Division	Class	Customer Charge	Average Annual Ccf	Base Dist. Rate	PGA	Commodity Charge	Total Commodity Charge	Total Bill
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	BUTLER - (B) DIVISION 71	Residential Firm Service	$7.00	761	0.17954	$0.86930	1.0488	798.17	882.17
2		Small General Service	12.50	896	0.19263	0.86930	1.0619	951.49	1,101.49
3		Medium General Service	12.50	8,113	0.19263	0.86930	1.0619	8,615.44	8,765.44
4									
5									
6	MISSOURI - (G) DIVISION 29	Residential Firm Service	$5.00	746.9	0.31920	0.86930	1.1885	887.69	947.69
7		Small General Service	5.00	672.0	0.31920	0.86930	1.1885	798.67	858.67
8		Medium General Service	5.00	4,141.0	0.31920	0.86930	1.1885	4,921.58	4,981.58
9									
10	KIRKSVILLE - (K) DIVISION 70	Residential Firm Service	$7.00	771	$0.07500	0.92020	$ 0.9952	$ 767.30	$ 851.30
11		Small General Service	12.50	1,136	0.08196	0.92020	1.0022	1,138.45	1,288.45
12		Medium General Service	12.50	8,008	0.08196	0.92020	1.0022	8,025.30	8,175.30
13									
14									
15									
16	MISSOURI - (P) DIVISION 97	Residential Firm Service	9.05	793	0.07495	0.92020	0.9952	789.35	897.95
17		Small General Service	$9.05	2,268	0.11143	0.92020	1.0316	2,339.74	2,448.34
18		Medium General Service	$9.05	7,319	0.11143	0.92020	1.0316	7,550.50	7,659.10
19									
20									
21									
22									
23	MISSOURI - (U) DIVISION 97	Residential Firm Service	$7.25	817	0.25280	0.92020	1.1730	958.22	1,045.22
24		Small General Service	15.00	1,397	0.28010	0.92020	1.2003	1,676.82	1,856.82
25		Medium General Service	15.00	8,553	0.28010	0.92020	1.2003	10,266.17	10,446.17
26									
27									
28									
29									
30	SEMO - (S) DIVISION 72	Residential Firm Service	$7.00	638	0.12529	0.99830	1.1236	716.40	800.40
31		Small General Service	12.50	1,347	0.13619	0.99830	1.1345	1,528.16	1,678.16
32		Medium General Service	12.50	6,578	0.13619	0.99830	1.1345	7,462.68	7,612.68
33									
34									
35									

Atmos Energy Corporation
Docket No. GR-2006-0387
Calculation of Change In Total Bill

Proposed Delivery Charge Rate Design; THREE Non-Gas Areas; FOUR PGA Areas:

Line	Division	Class	Delivery Charge [1]	Average Annual Ccf	Base Dist. Rate	PGA	Commodity Charge	Total Commodity Charge	Total Bill	Percentage Change	Dollar Change
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	BUTLER - (B) DIVISION 71	Residential Firm Service	$19.43	761	$0.00000	$0.86930	0.8693	661.54	894.70	1.4%	$ 12.53
2		Small General Service	19.43	896	0.00000	0.86930	0.8693	778.89	1,012.05	-8.1%	$ (89.44)
3		Medium General Service	75.00	8,113	0.15690	0.86930	1.0262	8,325.56	9,225.56	5.2%	$ 460.12
4											
5											
6	MISSOURI - (G) DIVISION 29	Residential Firm Service	$19.43	746.9	0.00000	0.86930	0.8693	649.28	882.44	-6.9%	$ (65.25)
7		Small General Service	19.43	672.0	0.00000	0.86930	0.8693	584.17	817.33	-4.8%	$ (41.34)
8		Medium General Service	75.00	4,141.0	0.15690	0.86930	1.0262	4,249.49	5,149.49	3.4%	$ 167.91
9											
10	KIRKSVILLE - (K) DIVISION 70	Residential Firm Service	$20.61	771	0.00000	0.92020	$ 0.9202	$ 709.47	$ 956.79	12.4%	$ 105.49
11		Small General Service	20.61	1,136	0.00000	0.92020	0.9202	1,045.35	1,292.67	0.3%	$ 4.22
12		Medium General Service	75.00	8,008	0.11945	0.92020	1.0397	8,325.52	9,225.52	12.8%	$ 1,050.22
13											
14											
15											
16	MISSOURI - (P) DIVISION 97	Residential Firm Service	$20.61	793	0.00000	0.92020	0.9202	729.90	977.22	8.8%	$ 79.27
17		Small General Service	20.61	2,268	0.00000	0.92020	0.9202	2,087.01	2,334.33	-4.7%	$ (114.01)
18		Medium General Service	75.00	7,319	0.11945	0.92020	1.0397	7,609.20	8,509.20	11.1%	$ 850.10
19											
20											
21											
22											
23	MISSOURI - (U) DIVISION 97	Residential Firm Service	$20.61	817	0.00000	0.92020	0.9202	751.71	999.03	-4.4%	$ (46.19)
24		Small General Service	20.61	1,397	0.00000	0.92020	0.9202	1,285.52	1,532.84	-17.4%	$ (323.98)
25		Medium General Service	75.00	8,553	0.11945	0.92020	1.0397	8,892.13	9,792.13	-6.3%	$ (654.04)
26											
27											
28											
29											
30	SEMO - (S) DIVISION 72	Residential Firm Service	$13.92	638	0.00000	0.99830	0.9983	636.52	803.56	0.4%	$ 3.16
31		Small General Service	13.92	1,347	0.00000	0.99830	0.9983	1,344.71	1,511.75	-9.9%	$ (166.41)
32		Medium General Service	$75.00	6,578	0.13424	0.99830	1.1225	7,384.07	8,284.07	8.8%	$ 671.39
33											
34											
35											

[1] Although Atmos' proposes sculpting the charge; on an annual basis, the Delivery Charge rate design is the same.

Exhibit No.:	
Issues:	Rate Design
Witness:	Anne Ross
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Direct Testimony
Case No.:	GR-2006-0387
Date Testimony Prepared:	September 26, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
September 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 Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF ANNE ROSS

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Anne Ross, of lawful age, on her oath states: that she has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 18 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Anne Ross

Anne Ross

Subscribed and sworn to before me this 25th day of September, 2006.

Rosemary R. Robinson

Notary Public

My commission expires 9-23-2008

ROSEMARY R. ROBINSON
Notary Public - Notary Seal
State of Missouri
County of Callaway
My Commission Exp. 09/23/2008

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DIRECT TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

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DIRECT TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name and business address.

A. Anne E. Ross, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Anne Ross who has previously filed Direct Testimony in this case?

A. Yes.

EXECUTIVE SUMMARY

Staff will discuss its proposal to combine seven current Atmos districts into three service territories: the northeast, southeast and Midwest, and to standardize the requirements for taking service under each rate schedule. Staff also intends to discuss the development of the customer classes used in its Class Cost-of-Service study, as well as the Tariff classes used in the proposed rate design. Finally, Staff is proposing Atmos' Residential and Small General Service rate design structures from one using a fixed customer charge and variable commodity charge to one consisting of a fixed delivery charge only.

STAFF PROPOSAL TO COMBINE SEVEN ATMOS DISTRICTS INTO THREE SERVICE TERRITORIES

Q. Where in Missouri does Atmos serve customers?

A. Atmos' Missouri operations are located in the northeast, southeast, and west-central areas of Missouri, and are the result of the following acquisitions:

- Greeley Gas Company (Greeley) was purchased in 1993. This area consists of the Missouri communities of Rich Hill and Hume, and surrounding areas, in Bates County. Bates County is in west-central Missouri, on the Missouri-Kansas border.
- United Cities Gas Company (UCG) was purchased in 1997. The service areas purchased in this acquisition are located in two separate areas of the state. The largest district includes the communities (and surrounding areas) of Hannibal, Canton, and Bowling Green, in the northeast corner of Missouri. This area borders the states of Iowa and Illinois, and is located in the counties of Scotland, Clark, Knox, Marion, and Lewis. Prior to its acquisition by Atmos, United Cities acquired the Palmyra district, in Marion County, from the company which is now Missouri Gas Energy. United Cities also served a few customers in the Neelyville area (Neelyville), in Butler and Ripley Counties. These counties are on the Missouri-Arkansas border.
- Associated Natural Gas Company (ANG) was purchased in 2000. The ANG Missouri properties were also geographically separated. One operating division was the Butler district (Butler), serving customers on the Missouri-Kansas border in the counties of Bates, Henry and St. Clair. ANG had a large district in the Missouri bootheel area, called the Southeast Missouri (SEMO) District. These operations were spread over the counties of Wayne, Iron, Butler, Stoddard, Scott, Cape Girardeau, New Madrid, Pemiscot, and Dunklin. Finally, ANG served communities in the Kirksville (Kirksville) area, in Adair, Macon, Schuyler counties, on the Missouri-Iowa border.

Schedule 1 is a map provided by the Company which shows the location of Atmos' Missouri service districts.

Q. Does Staff believe that the current division of Atmos customers into seven operating districts presents any problems?

A. Yes. Each of Atmos' distinct geographical areas (Northeast, Midwest, and Southeast) contain customers from two different previous companies, which results in every geographical area having at least two separate sets of tariffed rates. This set-up is not only administratively complex, but it is also unfair to customers, because it results in a large disparity in the amount customers in adjoining cities or counties pay for their margin, or non-gas costs.

Q. Why is there such a disparity in the rates that similarly situated customers might pay?

A. Atmos has not come in for a rate case since acquiring these Missouri service areas, so the rates for each district were set when the preceding LDC had its last rate case. In the case of United Cities Gas Company, that was 1995, for Associated Natural Gas, 1997, and Greeley has never had rates set in a rate case. In all three cases, the rates were determined years ago, based on the cost characteristics of three different LDCs, none of which own these service areas today.

Q. You make the statement that, given the current Atmos rate districts, a customer in one town might be paying a different non-gas rate than someone in a neighboring town. Can you provide an example using Atmos rates?

A. Yes. As an example, look at a hypothetical industrial Sales customer located in the northeast corner of the state, and assume a flat usage of 15,499 Ccf per month, or 185,988 Ccf per year. Depending on the district in which the customer is located, it could

take service under the following rate codes, and would pay roughly the annual non-gas cost shown in this table:

Current Atmos District	Rate Class	Annual Margin (Non-Gas) Bill
Palmyra	Large Volume Service	$10,032
Palmyra	Large General Service	$13,253
Kirksville	Small General Service	$15,394
UCG	Large Volume Gas Service	$14,255
UCG	General Gas Service	$29,658

As you can see from this table, a customer in one town could be paying three times as much as a customer in an adjacent town for the same distribution service from the same company.

Q. Does Staff propose to continue this separation?

A. No. Staff proposes to combine Atmos' current rate districts into three service territories based on location, and to set a single rate for all customers in a particular class in a particular geographical area. This will insure that a customer will not pay a completely different non-gas rate as his neighbor in the next town.

Q. How will Atmos' current districts be combined into the three service territories?

A. The service territories we proposed will be a combination of the following current Atmos districts:

Northeast Service Territory – Current Kirksville, UCG(Hannibal, Canton, Bowling Green), and Palmyra districts.

Midwest Service Territory – Current Butler and Greeley districts.

Southeast Service Territory – Current SEMO and UCG(Neelyville) districts.

These are the same groupings that were proposed by Company witness Patricia J. Childers in her direct testimony.

Q. Does Staff believe that there are any other problems with Atmos' current rate structures?

A. Yes. The eligibility requirements for the Company's tariff classes also differ according to the rate structure of the company from which they were acquired; therefore, a customer classified as Small General Service (SGS) in Hannibal might be defined differently from a customer in the Small General Service class in Palmyra..

Q. What is Staff's proposal to make Atmos' tariff class requirements more consistent?

A. Staff proposes the following tariff classes, with consistent, state-wide requirements for each class.

Residential

Small General Service - non-residential customer using 0 - 2,000 Ccf per year.

Medium General Service – non-residential customer using from 2,000 – 75,00 Ccf per year.

Large General Service – non-residential customer using from 75,000 – 200,000 Ccf annually.

Large Volume Service – non-residential customer using over 200,000 Ccf annually.

Q. Does the Company currently have a Medium General Service tariff?

A. No, it does not. The customers that will be classified as Medium General Service are currently taking service under the Small General Service and Large General Service tariffs.

Q. How was 2,000 Ccf/year chosen as the breakpoint between Small General Service and Medium General Service customers in Staff's proposal?

A. In conversations with Company personnel, it was conveyed that customers using less than 2,000 Ccf/year were served with the same meter/regulator and service line as a Residential customer. If a customer was expected to use more than 2,000 Ccf/year, the meter/regulator and service line installed on the customer's premise would most likely have to be larger.

Q. What percentage of the Company's current Small General Service customers use less than 2,000 Ccf per year?

A. Using information provided by the Company, I determined that approximately 80% of the Company's current Small General Service customers are in that usage range.

Q. Do you recommend state-wide rates for these customer classes?

A. No. I recommend that the rates in each of the service territories be the same for all customers in a tariff class, but tariff classes in service territories might pay a different non-gas rate.

CLASS COST OF SERVICE CUSTOMER CLASSES

Q. What customer classes is Staff using in its Class COS?

A. Staff is using the following customer classes:

Residential

Small General Service

Large General Service

Large Volume Service

Schedule 2 shows each district's current customer classes, the class in which they are included in the Staff COS study, the number of annual bills for the class, annual usage, and average annual usage per customer. As noted before, the many of the customers that will be designated as Medium General Service under the Staff proposal are currently taking service in the Small General Service class, and they have been included in this class for the COS.

Q. Atmos has some customers classified as Interruptible Sales, rather than Firm Sales, and all of Atmos' Transportation customers are classified as Interruptible. Do you propose that these Interruptible customers pay a different non-gas rate than similar Firm customers?

A. No. If an LDC faces capacity constraints, then having customers that can, and will, decrease their usage upon a request from the company is beneficial to all other customers on the LDC's system. In this environment, it would be appropriate that the Interruptible customer be served under a lower margin rate, and that difference between Firm and Interruptible margin rates be picked up by customers receiving Firm service.

It does not appear that Atmos faces this type of capacity constraint. In their response to Staff Data Request No. 109, the Company indicated that the only customers interrupted due to capacity constraints – specifically a problem with system pressure - on the Atmos distribution system in the past 5 years were six Residential customers, and their service was restored within three hours.

Q. Does this mean that customers designated as Interruptible will pay the same total bill for their gas service as customers designated as Firm Sales?

A. No. An Interruptible Sales customer pays a lower PGA rate than a Firm Sales customer. Atmos' current tariffs show a differential of up to 17¢ per Ccf. An Interruptible Transportation customer pays a lower rate to the pipeline/supplier for this designation. I do not have information on the capacity constraints of the pipelines from which Atmos Interruptible customers are served; that is a cost that is flowed through the PGA, and is not an issue being examined in this case, so I have no comments regarding the appropriateness of these customers receiving a lower PGA rate.

STAFF RATE DESIGN PROPOSAL

Q. What service territories did Staff use in its rate design?

A. As I discussed earlier in my testimony, Atmos' Missouri operations are located in three discrete areas of the state, and Staff has proposed proposed three service territories – Northeast, Midwest, and Southeast.

Q. What customer classes did Staff use in rate design?

A. For each separate service territory, I designed rates for the following classes:

Residential

Small General Service

Medium General Service

Large General Service

Large Volume Service.

Q. What is the source of class revenue requirements used for your rate design?

A. For each service territory, I used the class revenue requirements determined in the class cost-of-service studies performed by Staff witness Thomas M. Imhoff.

Q. What is Atmos' current Residential class rate design?

A. Atmos currently has a "traditional" Residential rate design consisting of a customer charge and a volumetric, or commodity rate. The customer charge is a fixed monthly charge which does not vary with usage. In general, this charge is designed to approximately recover the direct costs of the equipment required to allow a specific customer to take service, such as their meter, regulator, and service line, as well as cover ongoing expenses related to meter-reading and customer service functions. The remainder of the class' non-gas revenue requirement is collected on a per-unit rate based on weather-normalized class Ccf usage.

Q. What is Staff's proposal for the Residential class non-gas rate?

A. For the Residential customers, Staff recommends recovering the entire amount of the non-gas, or margin, costs of in a fixed monthly charge (Delivery charge.)

Q. How did Staff calculate the Residential Delivery charges that it is recommending in this case?

A. The proposed Delivery charge for each service territory was determined by taking the Residential class revenue requirement, and dividing by the number of annual bills.

Q. Why is Staff recommending that Atmos collect all margin costs in a single monthly charge?

A. We believe that this rate structure will address two significant current issues affecting the natural gas distribution market. Specifically, it will:

- Remove disincentives for utilities to encourage and assist customers in making conservation and efficiency investments.
- Reduce the effects of weather on utility revenues and customer bills. This will provide utilities the opportunity to earn their Commission-ordered non-gas revenue requirement – no more, and no less – in a rapidly changing environment.

Q. What have been some of the changes affecting the natural gas market?

A. The deregulation of the wholesale gas market means that the price of the commodity is now set by the forces of supply and demand. Nationwide, the Industrial sector's demand for natural gas has increased as a result of economic growth; in addition, electric utilties have come to rely more heavily on gas for their summer generation. Not only have these two factors led to an overall increase in demand for natural gas, but they have altered the seasonality of natural gas prices. The increased demand in the summer means that there is less of a decrease in the commodity's price in the summer. Since summer is traditionally when LDC's replenish their level of storage gas for use in the winter, the higher prices are eventually passed on to Residential customers.

Q. What can consumers and regulators do to influence the wholesale price of natural gas?

A. There is little that consumers can do to affect the wholesale price of natural gas. State regulators try to insure that LDC's are making strong efforts to procure their gas supply at the lowest price by conducting prudency reviews; outside of this, there are few actions that can be taken.

Q. Is there *anything* that consumers and regulators can do?

A. Yes. While the supply of natural gas is outside the control of these stakeholders, there are actions that can be taken to reduce demand – namely weatherization and other energy efficiency investments, which I will group under the umbrella term of conservation measures or simply conservation.

Q. How do conservation measures affect natural gas prices?

A. Conservation affects gas prices on both a micro and macro level. On the micro level, while conservation does not lower the per-unit price that one household is paying vis-à-vis another household, the household that has implemented conservation measures pays less in total to meet its requirements. On the macro level, a decrease in natural gas usage will exert downward pressure on the wholesale price of natural gas. In November, 2005, the National Association of Regulatory Utility Commissions adopted a *Resolution on Energy Efficiency and Innovative Rate Design*, which stated that "Energy conservation and energy efficiency are, in the short term, the actions most likely to reduce upward pressure on natural gas pries and to assist in bringing energy prices down to the benefit of all natural gas consumers." The 2 page Resolution is attached as Schedule 3 .

Q. Why do utilities have a disincentive to encourage customers to lower their natural gas usage?

A. While utilities do not earn a profit on the actual cost of the gas they procure for their customers, traditional rate design directly ties LDC profits to the amount of gas they deliver to customers. The utility's cost to serve customers is largely fixed; once these fixed costs are recovered, each additional unit of gas delivered to customers increases the profit to the utility. This results in the gas utility acting contrary to its shareholders' interests by encouraging its customers to use less gas.

Q. How does a Delivery charge remove that disincentive?

A. By breaking the link between sales and profits, the utility does not increase profit when its customers use more gas, nor does it lose revenue when customers use less. This is often called revenue *decoupling*.

Q. Under traditional rate design, how does weather affect customer bills and utility profits?

A. In the short-term, this rate structure means that every year there is a "winner" and a "loser." In winters that are warmer (ie, contain less Heating Degree Days than the weather used to set rates), the customer "wins" by paying less than the utility's actual cost of serving them. Under this weather scenario, the utility "loses" by undercollecting their cost of service.

In a winter that is colder than the statistically normal winter used to set rates in the last rate case, the customer "loses" by paying more than the true non-gas cost to serve them. The utility "wins" by overcollecting non-gas costs.

Q. What happens in the long-term?

A. Everybody loses. If usage is less than expected, the utility does not recover the Commission-approved cost of serving their customers, leading to earning erosion. As a result, the financial health of the company suffers. The utility's rating or stock price could decrease, making it more expensive to attract capital. Since the cost of a utility's capital is an expense that is paid for in rates, this ends up being an issue in a succeeding rate case, and could result in higher rates for future customers.

If usage is greater than expected, the customer pays an excessive amount for the service they are receiving from the utility. The company over-collects its cost of service, exposing it to the threat of Commission action.

Q. If customers use less natural gas, either in response to a warm winter, or because of the customer's conservation efforts, won't the utility be able to lower its investment in plant and equipment?

A. Not necessarily. As plant and equipment is replaced, it is conceivable that the utility could downsize its investment – put in a distribution main with a smaller diameter, replace a meter with a lower-capacity meter, and so on. There are formidable obstacles to this process, though.

First, a vast majority of the utility's investment in plant used to serve its customers consists of assets with an expected life of 18 to 65 years. Schedule 3 is a summary of the imputed service life of Atmos' Distribution Plant accounts, which provides some indication of the assets' expected average useful service life. I have been informed by Staff experts on depreciation that the imputed service lives shown on this schedule are not unusual for Missouri LDC's. From the schedule, one can see that it is possible that replacement of a piece of plant or equipment might not be necessary for many years; in the meantime, the original equipment is in rate base and its cost included in customer rates.

Second, given current technology, there is a lower bound as to how small this equipment can be sized and still be cost-effective. An average customer who is using natural gas only for cooking will require the same meter as one who is heating their home with natural gas, because both are served with the Company's smallest meter. As long as a customer uses gas for any purpose, the company must invest in meters, regulators and service

lines to serve that customer. Even though the direct link between the customer and the need for a meter is very straightforward, the utility must make investments to otherr components of its rate base regardless of the customer's usage. The utility will still need mains, measuring and regulating equipment, rights of way, etc.

Q. Won't the utility's expenses drop if their customers are using less gas?

A. No. Bills must be mailed, meters must be read, and customers require assistance, regardless of the amount of gas used. Many of the utilites' other expense items, such as Operation and Maintenance expense, are tied to the plant investment, so these expenses will suffer from the same delayed reaction to usage changes as the plant discussed above.

Q. Are other states looking at ways to address the issues that you have described?

A. Yes. The NARUC Resolution that I referenced earlier calls for "State commissions and other policy makers to review the rate designs they have previously approved to determine whether they should be reconsidered in order to implement innovative rate designs that will encourage energy conservation and energy efficiency." A May 2006 forum entitled "Rethinking Natural Gas Utility Rate Design," and sponsored by the American Gas Foundation and NARUC Education and Research Foundation brought together representatives of the major stakeholders – state commissioners, utilities, financial analysts, utility consultants, and consumer advocates – to discuss ways in which the stakeholders' interests can be more closely aligned.

Q. What are the specific monthly Delivery charges that you are recommending for Amos' three service territories?

A The specific Residential Delivery charges that Staff is proposing are

Northeast Service Territory	$21.79
Midwest	$19.43
Southeast	$14.77

Q. Do you believe that customers will object to paying a fixed amount each month, rather than the variable amount that they are used to paying?

A. As with any change, there will be some resistance. Intensive consumer education will need to be conducted. At the current time, customers often do not understand that they are paying the LDC for the delivery of their gas, rather than the gas itself, and the current practice of collecting margin rates in a volumetric charge increases that confusion. Customers may, therefore, believe that it is unfair that part of their bill does not decrease when their usage decreases, whether it's due to conservation or warm weather. It should be remembered, though, that customers are used to this type of payment structure for other goods and services. Cable TV, local phone service, and trash pickup have a similar type of charge, and most consumers appear to accept this.

A major advantage of this form of rate is that it is easy to explain to customers. Unlike other revenue decoupling rate designs, the rate being charged to customers will not change on a monthly basis, nor will the consumer see his rate increase due to conservation steps he has taken.

Q. Do you have any additional comments on the Staff's Delivery charge proposal?

A. Yes. Along with education, the utility and the Commission should actively promote and support customer conservation efforts – with access to funds, information, and advocacy. Lower income households will benefit from weatherization assistance. Moderate

income households could benefit from programs that enable them to afford the up-front costs of cost-effective conservation investments. Once the utility's concern regarding revenue loss due to lowered sales has been addressed, I would hope that the utility would be a creative, active and knowledgeable leader in this effort. They are in a unique position to identify customers who could benefit from conservation efforts, for example, households that are having trouble paying their utility bills, and in doing so, would most likely benefit their entire customer base.

Q. What is the rate design proposal for the Staff's Small General Service tariff class?

A. Staff proposes that the customers classified as Small General Service pay the same Delivery charge as the Residential customers.

Q. Why does Staff believe it is appropriate for a small non-Residential customer to pay the same Delivery charge as a Residential customer?

A. Atmos provided individual customer information on those customers taking service in its current Small General Service classes. For each customer, Atmos calculated the customer's annual usage for the past three years, as well as an average over the three years. I sorted the information according to the 3-year average usage of each customer, and analyzed the customers grouped into the service territories that the Staff is advocating, as well as all of the Company's SGS customers combined into one grouping.

This information showed that most of Atmos' current SGS customers are very small; in fact, around 80% use 2,000 Ccf per year or less. This usage is not much more than an average Residential customer uses, and is smaller than some of the larger Residential customers that Atmos serves. A customer in the range of 0 – 2,000 Ccf annually can be

served using the same meter, regulator and service line that is used for a majority of Residential customers. In addition, the smaller SGS customers tend to be weather-sensitive, similar to a Residential customer. For these reasons, I believe that the cost characteristics of the customers in Staff's proposed SGS class are not appreciably different than those of the Company's Residential customers, and that the Company's cost to serve an SGS customer is very similar to residential customers on a per-customer basis. I therefore propose that these customers pay the same amount as the Residential customers.

Q. What rate structure is Staff proposing for the Medium General Service class?

A. It is difficult to propose a specific rate, because a more detailed analysis will need to be done on Atmos' larger SGS customers and smaller Large General Service customers to see which of these customers will qualify for the proposed MGS class. Although I cannot calculate an exact rate, I do believe that the following should be considered when designing the rate:

- The rate should collect the remainder of costs allocated to the SGS class in the Staff Class Cost-of-Service study.
- If at all possible, the rate structure should be continuous with the SGS and LGS rates, meaning that a very large MGS customer should pay about the same as a very small LGS customer, and that a small MGS customer should pay approximately the same as an SGS customer at the 2,000 Ccf/year level.
- The customer charge for this class should recover as large an amount of the utility's fixed costs as the Commission deems appropriate.

Q. What is your proposal for the LGS class rate structure?

A. I believe that each component of the Large General Service customer rates should be increased at the same percentage as the class revenue requirement. This may have to be adjusted somewhat to provide the rate continuity I discussed in the previous Q and A. One rate design change that I believe is very important is a flat volumetric rate, as opposed to the current blocked rates. I do not see any benefits from the blocked rate structure, either to the customer or the Company, and agree with the Company's proposal to eliminate that rate structure.

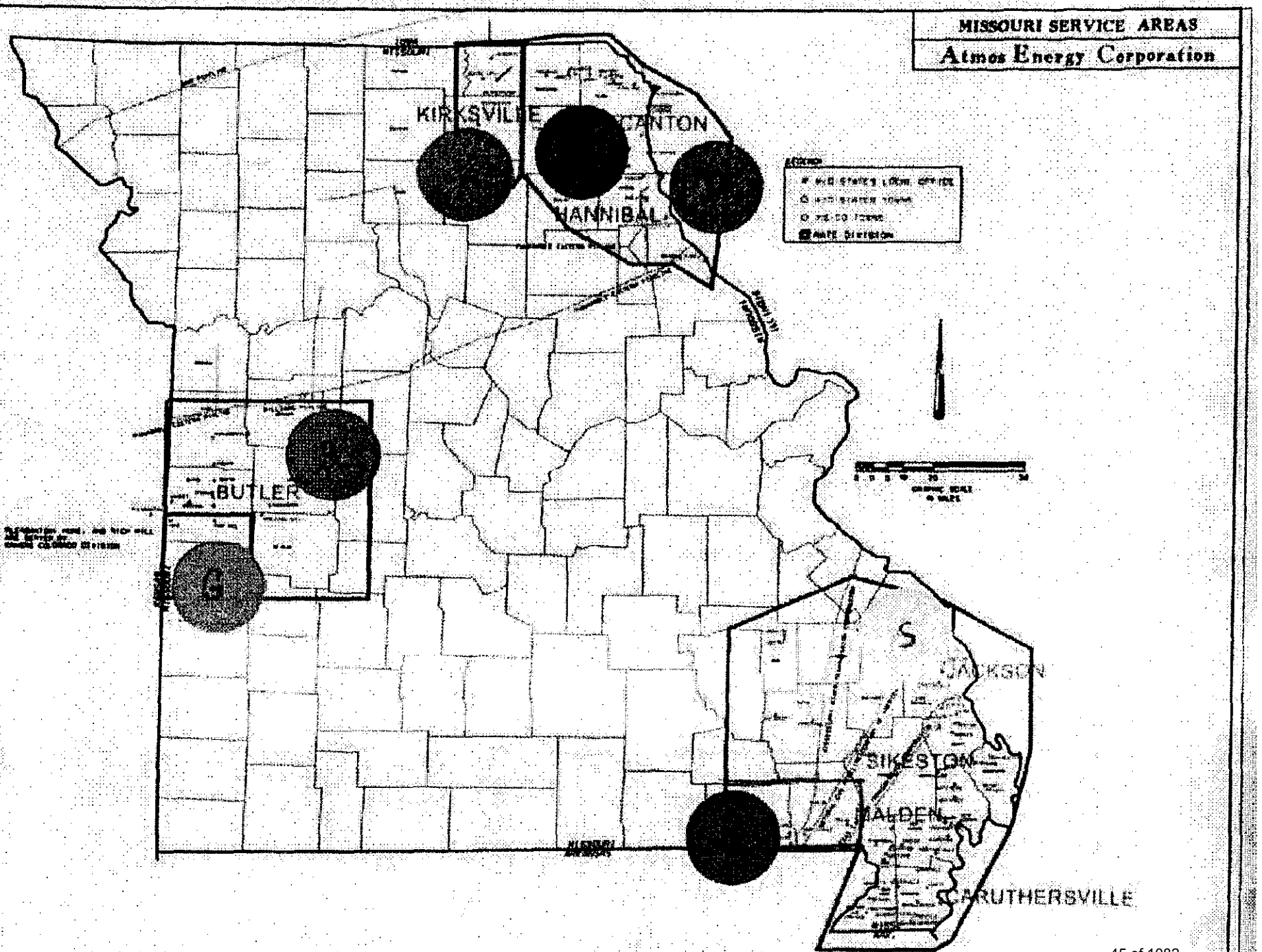
Q. What is your proposal for the Large Volume Service class rate structure?

A. I propose that, in general, the current rates be increased for these customers according to the percentage increase recommended in Staff's class COS; however, I also recommend that the Sales customers in this class pay a per Ccf adder to reflect the costs of the Company's peaking facilities, in the service territories that contain these facilities.

Q. Does this conclude your direct testimony on rate design?

A. Yes.

SCHEDULE 1


MISSOURI SERVICE AREAS
Atmos Energy Corporation
KIRKSVILLE
CANTON
HANNIBAL
BUTLER
JACKSON
SIKESTON
MALDEN
CARUTHERSVILLE

ATMOS NATURAL GAS COMPANY
Case No. GR - 2006 - 0387
Classification of Current Tariff Classes into Staff Class Cost-of-Service Classes

	Current Atmos Tariff Class	Classification in Staff C-O-S	Bills	Ccf Volumes	Average Annual Usage/Cust
BUTLER	RES	Residential	38,677	2,514,034	780
	SGS	Small General Service	6,102	1,206,160	2,372
	LGS - Interruptible Sales	Large General Service	60	996,701	199,340
			0	0	0
GREELEY	RES	Residential	4,982	317,869	766
	SGS	Small General Service	490	51,901	1,271
KIRKSVILLE	RES	Residential	61,049	4,018,470	790
	SGS	Small General Service	10,455	2,529,020	2,903
	LGS - Interruptible Sales	Large General Service	60	1,018,649	203,730
	Transport	Large Volume Service	24	2,198,761	1,099,381
PALMYRA	RES	Residential	14,747	997,810	812
	SGS	Small General Service	2,178	613,621	3,381
	LGS - Firm Sales	Small General Service	24	3,260	1,630
	LV - Sales	Small General Service	12	39,730	39,730
	LV - Transport	Large Volume Service	24	585,660	292,830
UCG(Hannibal, Canton, Bowling Green)	RES	Residential	132,685	9,487,300	858
	SGS	Small General Service	17,821	4,948,905	3,332
	LV - Firm Sales	Large General Service	60	385,199	77,040
	LV - Interruptible Sales	Large General Service	72	740,532	123,422
	School Pilot Transport	Large General Service	12	73,248	73,248
	Hand-Billed Transport	Large Volume Service	108	3,204,631	356,070
SEMO	RES	Residential	370,881	20,204,770	654
	SGS	Small General Service	50,929	10,022,604	2,362
	LGS - Interruptible Sales	Large General Service	324	1,818,011	67,334
	TRANSPORT	Large Volume Service	192	23,066,805	1,441,675
UCG(Neelyville)	RES	Residential	4,842	211,327	524
	SGS	Small General Service	825	101,991	1,484

SCHEDULE 2

Resolution on Energy Efficiency and Innovative Rate Design

WHEREAS, The National Association of Regulatory Utility Commissioners (NARUC), at its July 2003 Summer Meetings, adopted a *Resolution on State Commission Responses to the Natural Gas Supply Situation* that encouraged State and Federal regulatory commissions to review the incentives for existing gas and electric utility programs designed to promote and aggressively implement cost-effective conservation, energy efficiency, weatherization, and demand response; *and*

WHEREAS, The NARUC at its November 2003 annual convention, adopted a *Resolution Adopting Natural Gas Information "Toolkit,"* which encouraged the NARUC Natural Gas Task Force to review the findings and recommendations of the September 23, 2003 report by the National Petroleum Council on *Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy* and its recommendations for improving and promoting energy efficiency and conservation initiatives; *and*

WHEREAS, The NARUC at its 2004 Summer Meetings, adopted a *Resolution on Gas and Electric Energy Efficiency* encouraging State commissions and other policy makers to support expansion of energy efficiency programs, including consumer education, weatherization, and energy efficiency and to address regulatory incentives to inefficient use of gas and electricity; *and*

WHEREAS, These NARUC initiatives were prompted by the substantial increases in the price of natural gas in wholesale markets during the 2000-2003 period when compared to the more moderate prices that prevailed throughout the 1990s; *and*

WHEREAS, The wholesale natural gas prices of the last five years largely reflect the fact that the demand by consumers for natural gas has been growing steadily while, for a variety of reasons, the supply of natural gas has had difficulty keeping pace, leading to a situation where natural gas demand and supply are narrowly in balance and where even modest increases in demand produce sharp increases in price; *and*

WHEREAS, Hurricanes Katrina and Rita, in addition to damaging the States of Alabama, Mississippi, Louisiana, and Texas, significantly damaged the nation's onshore and offshore energy infrastructure, resulting in significant interruption in the production and delivery of both oil and natural gas in the Gulf Coast area; *and*

WHEREAS, The confluence of a tight balance of natural gas supply and demand and these natural disasters has driven natural gas prices in wholesale markets to unprecedented levels; *and*

WHEREAS, The present high and unprecedented level of natural gas prices are imposing significant burdens on the nation's natural gas consumers, whether residential, commercial, or industrial, and will likely be injurious to the nation's economy as a whole; *and*

WHEREAS, The recently enacted Energy Policy Act of 2005 contains a number of provisions aimed at encouraging further natural gas production in order to bring down prices for consumers,

but these actions, together with any further action on energy issues by Congress, are unlikely to bring forth additional supplies of natural gas in the short term; *and*

WHEREAS, Energy conservation and energy efficiency are, in the short term, the actions most likely to reduce upward pressure on natural gas prices and to assist in bringing energy prices down, to the benefit of all natural gas consumers; *and*

WHEREAS, Innovative rate designs including "energy efficient tariffs" and "decoupling tariffs" (such as those employed by Northwest Natural Gas in Oregon, Baltimore Gas & Electric and Washington Gas in Maryland, Southwest Gas in California, and Piedmont Natural Gas in North Carolina), "fixed-variable" rates (such as that employed by Northern States Power in North Dakota, and Atlanta Gas Light in Georgia), other options (such as that approved in Oklahoma for Oklahoma Natural Gas), and other innovative proposals and programs may assist, especially in the short term, in promoting energy efficiency and energy conservation and slowing the rate of demand growth of natural gas; *and*

WHEREAS, Current forms of rate design may tend to create a misalignment between the interests of natural gas utilities and their customers; *now therefore be it*

RESOLVED, That the National Association of Regulatory Utility Commissioners (NARUC), convened in its November 2005 Annual Convention in Indian Wells, California, encourages State commissions and other policy makers to review the rate designs they have previously approved to determine whether they should be reconsidered in order to implement innovative rate designs that will encourage energy conservation and energy efficiency that will assist in moderating natural gas demand and reducing upward pressure on natural gas prices; and be it *further*

RESOLVED, That NARUC recognizes that the best approach toward promoting energy efficiency programs for any utility, State, or region may likely depend on local issues, preferences, and conditions.

Sponsored by the Committee on Gas
Recommended by the NARUC Board of Directors November 15, 2005
Adopted by the NARUC November 16, 2005

Exhibit No.:	
Issues:	Rate Design
Witness:	Anne Ross
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Rebuttal Testimony
Case No.:	GR-2006-0387
Date Testimony Prepared:	October 31, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
October 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 Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF ANNE ROSS

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Anne Ross, of lawful age, on her oath states: that she has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 13 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Anne Ross

Anne Ross

Subscribed and sworn to before me this 26th day of October, 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer

Notary Public

My commission expires 9-21-10

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OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

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REBUTTAL TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name for the record.

A. My name is Anne Ross.

Q. Are you the same Anne Ross who previously filed Direct testimony in this case?

A. Yes.

Executive Summary

Q. What is the purpose of your testimony?

A. I will comment on the proposal made by Office of Public Counsel witness Barbara A. Meisenheimer to delay consolidation of Atmos' seven districts into three districts. I will discuss OPC's rate design proposals. I will also comment on one of the rate design proposals of Atmos Energy Corporation (Atmos or Company) witness Patricia J. Childers.

OPC Proposal to Keep Current Atmos Districts Separate

Q. What are your comments about Ms. Meisenheimer's recommendation that "the Commission should reject the Company's proposal and any other proposals to realign base rates among classes within a district to blend district rates without an adequate cost based showing that such changes are warranted. Issues of class shifts within a district or potential district consolidations should be addressed in a separate rate design case in which the

Company should develop and present comprehensive cost support and customer impact analysis." (Meisenheimer, p. 3., ls. 8-14)

A. While having "comprehensive cost support...analyses" as proposed by Ms. Meisenheimer would be informative, I believe that it is reasonable to conclude that the cost to serve similarly situated customers in contiguous districts is approximately the same. While the Atmos districts *used to be* owned by three separate companies, they are now one company, and have been for a number of years. The Company does not purchase equipment like meters or mains in the exact quantity needed to serve one district, does not have totally different people performing its customer service activities, and does not incur different corporate overhead expenses according to whether it is serving a Residential customer in Butler or one in Rich Hill. While there might be some difference in costs due to the vintage of the distribution equipment in different districts at a point in time, at another point in time the cost relationship could be completely reversed despite the fact that the basic equipment required to serve a customer and the services provided did not change. In summary, I do not believe that it is necessary to wait for detailed information to be gathered to perform detailed cost studies on Atmos' seven districts in order to conclude that combining these districts into three geographical service territories is reasonable, and Staff supports the Company's proposal to do so.

OPC Proposal to Leave Residential Customer Charges at Current Levels

Q. What are your comments on OPC's proposal that the Residential customer charge be left at its current value(s) due to the "lack of district specific information such as the actual cost of meters by customer type?" (Meisenheimer, direct, p. 3, ls. 16-17)

A. I am not sure what Ms. Meisenheimer means by "customer type", since she is discussing the Residential class customer charge. The customers in this class are more homogenous than customers in any other of the Company's rate classes, and I have not seen any evidence presented that would indicate that Residential customer characteristics vary to any significant degree. In response to a Staff data request, the Company indicated that the cost of meters, regulators and service lines, is the same for all districts.

Q. What are your comments on Ms. Meisenheimer's reluctance to increase the customer charge due to the lack of "district specific actual service cost by customer type?" (Meisenheimer, direct, p. 3, l. 17)

A. As far as the "district specific actual service cost by customer type," I have the same question as to what Ms. Meisenheimer means by "customer type." Assuming that by "service cost" she is referring to the expenses associated with billing and customer service, I do not see any reason why the costs would vary significantly between the Company's current districts. When a Residential customer calls the Atmos customer service number, the call is initially answered by a person in one of three out-of-state call centers. The call will be handled at that level, if possible; if not, it is routed to one of Atmos' seven call centers in Missouri. These call centers serve all of the customers in the surrounding area, and there is no distinction due to the Company that served the customer 10 years ago when these customers were served by one of three different LDCs. For example, there is no specific call center for former Greeley gas customers, or for the former United Cities Gas customers in Neelyville – their questions and complaints are handled by the same people as those for Butler and SEMO, respectively.

OPC Residential and Small General Service Rate Design Proposal

Q. What are your comments regarding Ms. Meisenheimer's rate design proposal to continue the current Residential and Small General Service (SGS) rate structure consisting of a customer charge and volumetric charge?

A. I believe that this rate structure is inappropriate in today's natural gas regulatory environment; that OPC's Residential and SGS rate design proposal should be rejected; and that the Commission should adopt Staff's Delivery charge for the Residential and SGS classes.

Changes in the Natural Gas Market Over Past Ten Years

Q. What do you mean by "today's natural gas regulatory environment?"

A. As recently as 10 years ago, natural gas was touted as being a clean, cheap fuel. Storage capacity for natural gas was believed to be adequate, as was natural gas production. Electric utilities were consistently building combustion turbine and combined cycle plants that used natural gas, rather than base load units that used coal, and many Industrial customers used natural gas instead of electricity whenever possible.

At the same time, the problem of affordability was gaining recognition. When the actual cost of natural gas was low, the customers' non-gas, or margin, cost was a significant portion of the customer's total bill, and it was the only part of a Residential customer's bill that could be influenced by State regulators. It was believed that customers would take steps to avoid high usage if a large part of the non-gas cost-of-service was collected through a volumetric rate, so residential customer charges were set at a low level, with a volumetric charge collecting the remainder of the Residential class' cost-of-service.

This rate design closely tied LDC's revenues to the amount of gas delivered to customers. Understandably, LDCs encouraged households to use natural gas-fired equipment for their space- and water-heating needs. Although some promotional practices were restricted by regulators, other promotional practices that encouraged customer use were allowed in tariffs.

Finally, ten years ago, the technology needed to make an efficient furnace or water heater was often prohibitively expensive. With natural gas prices so low, the time it took for payback of highly efficient furnace or water heater investments was relatively long.

Approximately five years ago, natural gas prices increased dramatically, and did not return to their previous levels. Residential customer bills doubled, and worse An Emergency Cold Weather Rule was enacted in Missouri. The non-gas portion of a customer's bill went from being around 60% of the total bill to around 20%-25%. Studies found that the usage of low-income customers was not under their control to any great extent, and a study performed by a former OPC Chief Public Economist found that low-income customers were often high users, mainly due to the inefficient housing in which they lived[1]. Programs to help customers pay their energy bills became popular, but few succeeded in permanently changing a customer's ability to pay their utility bill. Efficiency technology developed to the point that it became affordable to many customers, especially when the new level of gas prices was taken into account.

One thing that didn't change, at least in Missouri, was the rate design. Revenues are still collected from Residential customers in the form of a customer charge and a commodity charge. Since the rate design hasn't changed, a utility's opportunity to earn a profit still directly depends on the amount of gas delivered to customers. The exception to this is

[1] Missouri Gas Energy, Case No. GR-2001-292, rebuttal testimony of Philip B. Thompson

Laclede Gas Company's Residential rate design, which allows them to collect their distribution costs over the first 65 therms of gas usage each month.

Finally, another significant recent change is the passage of Senate Bill 179, which allows regulated utilities to recover revenue losses caused by weather or customer conservation. It is reasonable to assume that this bill is an indication that utilities have concerns about their opportunities to earn their Commission-ordered rate of return due to the effects of weather and of lower customer usage.

Criticisms of OPC Rate Design Proposal

Q. What are your general conclusions about the Residential rate design proposed by OPC in this case?

A. I believe that the OPC Residential rate structure:

1. forces Residential customers whose usage is greater than the average to pay more than the cost required to serve them, while allowing smaller customers to underpay their cost-of-service;
2. discriminates between identical Residential customers in contiguous districts by charging different non-gas margin rates;
3. creates unnecessary volatility in customer bills by collecting a larger portion of customers' cost-of-service in the winter;
4. provides no incentive for utilities' to aggressively promote customer efficiency and conservation to their customers; in fact, a utility doing so would be acting contrary to its shareholder interests;
5. sends incorrect price signals to Residential customers; and
6. does nothing to address Senate Bill 179.

Rate Structure Forces Higher Use Customers to Subsidize Smaller Customers

Q. What is your first criticism of OPCs Rate Design Proposal?

A. I believe that this rate structure perpetuates two inequities for customers in the Residential class.

Q. What is the first type of inequity?

A. A cost recovery mechanism that is highly dependent on usage creates a difference in the amount of revenue collected from different sized customers within the Residential class, and Staff does not believe that this difference is cost-justified. This type of revenue collection mechanism unfairly penalizes customers using more than the average normalized usage level upon which rates were set in a previous rate proceeding. A household using more than the average level pays more than the cost required to serve it, while a household using less pays less than the cost. Put simply, the larger Residential users are subsidizing the smaller users. Staff does not see any cost basis on which to charge similarly situated customers different contributions to the cost of service, and believes that this is unduly discriminatory and unfair.

Q. Why do you mean when you talk about "large" and "small" Residential customers?

A. When we talk about "large" and "small" Residential customers, we are speaking in relative terms. The difference between large and small Residential customers is measured in hundreds of Ccfs, while the difference between large and small Small General Service customers can be thousands or tens of thousands of Ccfs.

Q. Why doesn't a company install, for example, a meter that is sized to accommodate a customer's exact demand and usage, so that a customer who only intends to cook with natural gas has smaller equipment and can be served at less cost than a Residential customer who plans to use natural gas for cooking and space heating?

A. There are two reasons. First, meters are produced to meet *ranges* of customer usage levels, not individual customers' usage levels. A customer using 600 Ccf per year will be served by the same meter as a customer using 50 Ccf per year. Second, even if equipment

could be sized to exactly meet a customer's usage at the time when the customer signed on for natural gas service, the Company will typically install a meter that will meet not only the customer's current usage level, but could handle increased usage that might occur in the future. A customer may intend to only use gas for cooking today, but in ten years might decide to put in a natural gas furnace. It would be very expensive to change out the equipment – replace the meter and regulator, dig out the service line, etc - every time a customer made a decision to change the way in which they used natural gas, and utility companies avoid this by installing a standard size.

Keeping District Rate Differential Leads to Differences in Similarly Situated Residential Customers Bills

Q. What is the second source of inequity between similarly situated customers caused by the Residential rate design advocated by OPC?

A. The rate design proposed by OPC is unfair to customers in contiguous districts. I calculated the non-gas portion of a Residential customer's bill using the non-gas rates in effect today, and an annual usage of 720 Ccfs, and got the following results for Atmos' current districts:

Current District	Customer Charge	Volumetric Rate	Annual Non-gas Bill @ 720 Ccf
Kirksville	$7.00	$0.07500	$138
Palmyra	$9.05	$0.07495	$163
Hannibal/Canton/Bowling Green	$7.25	$0.25280	$269

Greeley	$5.00	$0.31920	$290
Butler	$7.00	$0.17954	$213
SEMO	$7.00	$0.12529	$174
Neelyville	$7.25	$0.25280	$269

As you can see, the customers in neighboring towns could be paying up to twice as much for the non-gas portion of their bill despite the fact that they are being served by the same LDC. I have not seen, and cannot imagine, any type of justification for this level of cost differential.

OPC Rate Structure Creates Unnecessary Volatility in Residential Customers' Bills

Q. How does the Residential rate design proposed by OPC affect the level of customer bills?

A. One effect of a customer charge/volumetric rate design is that most Residential customers currently have non-gas bills that are higher in the winter than they would be under Staff's proposed Delivery Charge rate design. Winter is also the time of year when many Residential customers are space-heating, and facing high usage and gas costs. Given the level of gas prices we are seeing, customers can ill afford a rate design which makes their bill more volatile than is necessary.

Q. If a customer wishes to eliminate the variability from their bill, can't they participate in Atmos' Budget Payment plan?

A. Yes. If a consumer wishes to eliminate all of the variability in their bill, there is a mechanism in place to do that, and it can be used regardless of the rate design decided

upon by the Commission. Atmos' Budget Payment plan allows customers to pay a level monthly amount intended to cover both gas and non-gas costs, based on an expected annual bill.

The majority of Residential customers, though, do not participate in Atmos' Budget Payment plan. Staff believes that some of these customers depend on receiving lower bills in the summer, when they are paying higher electric bills, or they may have expenses such as income taxes that they pay in those months when bills are lower. For whatever reason, they choose a seasonal bill pattern. A fixed monthly non-gas bill will not take that choice from them - it will merely reduce the peaks and valleys by a few dollars each month.

Rate Design Punishes Utility Participation in Conservation Initiatives

Q. What effect does OPC's rate design have on a utility's willingness to help customers lower their total bill by promoting conservation measures?

A. This type of rate design provides absolutely no incentive for an LDC to promote and assist its customers in efficiency measures, since it is acting contrary to its shareholders' interests by doing so. It is important to remove this disincentive, because conservation and weatherization measures are key to producing a sustainable change in a customer's ability to pay their utility bill. With gas in the $0.80 - $1.00 per Ccf range, a small decrease in usage due to efficiency will make a noticeable difference in a customer's bill, and the utility is the entity best situated to assist customers with these measures. It is possible that this action could lower expenses such as bad debt or collection expenses, and the benefits accrue not only to the customer, but to all of the other customers on the Atmos system.

Q. What types of actions does the Staff believe that Atmos could take to promote efficiency/conservation of natural gas?

A. The Staff would encourage Atmos to initiate a program for all residential customers that identifies improvements to a residence that will reduce energy consumption. The Staff would suggest that the Company charge $25 for each of these evaluations and allow a customer to request an examination only once every two years.

The Staff would also support the Company initiating a program which would weatherize homes for low income customers. The largest part of a ratepayer's bill is the volumetric charge for the actual price of natural gas. The price of natural gas by itself produces a hardship on many of the Company's low income consumers. By initiating a program which weatherizes a certain number of homes a year, low income customers may be more likely to experience gas bills they can afford. Based on programs that have been initiated by other Missouri utilities, the Staff suggests that the Company spend $78,000 annually to weatherize at least 30 homes a year.

Rate Structure Sends Distorted Cost Signals to Customers

Q. What price signal does OPC's proposed rate structure send to consumers to use in their decision-making?

A. By collecting only a portion of the utility's fixed cost in a customer charge, the price signal sent to consumers is distorted.

Q. What problem can this incorrect price signal cause in regard to consumer decision-making?

A. An artificially low customer charge rate design will attract low-usage customers from whom less revenue will be collected than it costs to serve them. A customer requesting gas service to use only for cooking will pay a bill that does not cover the cost of the distribution equipment and utility expenses required to provide service. The costs which

are not covered by this customer will be passed on to other customers, many of whom are already overpaying their cost-of-service. The provision of incorrect information about the real costs to serve them, and any uneconomic decisions made based on that information, will provide a detriment to many of the other Residential customers. It is important that customers know the true cost of serving them so they have the opportunity to make the correct economic choice.

Rate Design Does not Address Requirements Related to Senate Bill 179

Q. Does OPC's rate design proposal do anything to address the provisions of Senate Bill 179?

A. No, it does not. While the Staff's proposed Delivery Charge would provide a rate structure that would make a surcharge that is contemplated in Senate Bill 179 unnecessary, that is not true with OPC's Residential rate structure. With OPC's Residential rate structure, the rate design structure that was in place when Senate Bill 179 was approved by the legislature and signed by the governor would still be in place and the remedies in Senate Bill 179 would likely be sought by LDCs.

Recommendation Regarding OPC Residential Rate Design

Q. What is your recommendation regarding OPC's Residential rate design?

A. I recommend that the Commission reject OPC's rate structure consisting of a customer charge and volumetric rate, and adopt Staff's proposed Delivery Charge rate design.

Atmos Residential Rate Design Proposal

Q. Do you have any comments on Atmos' proposed Residential rate design?

A. Yes. One of Atmos' rate design proposals calls for a $9 system-wide Residential customer charge, with the rest to be collected through a volumetric rate. This

proposal suffers from the same weaknesses as the OPC rate design, so all of my comments on that apply to the Company's rate design. If the Commission does not adopt Staff's rate design, Staff proposes that the Commission order a Residential customer charge of at least $9 to limit the amount of margin revenue collected from the Residential Class through a commodity charge.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Exhibit No.:
Issues: Rate Design

Witness: Anne Ross
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2006-0387
Date Testimony Prepared: November 13, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
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 Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF ANNE ROSS

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Anne Ross, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 14 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Anne Ross

Anne Ross

Subscribed and sworn to before me this 9th day of November, 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer

Notary Public

My commission expires 9-21-10

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ANNE ROSS

ATMOS ENERGY CORPORATION

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SURREBUTTAL TESTIMONY

OF

ANNE ROSS

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Are you the same Anne Ross who previously filed testimony in this case?

A. Yes.

EXECUTIVE SUMMARY

Q. What is the purpose of your surrebuttal testimony?

A. I will respond to the points contained in the rebuttal testimony of Office of Public Counsel (OPC) witness Barbara Meisenheimer regarding the Staff's Residential and Small General Service rate design proposal, and will comment on OPC's concern about rate continuity between the commercial and industrial customer classes. I will also comment on the rate design proposal of Atmos witness Gary L. Smith.

REBUTTAL TO OPC WITNESS BARBARA A. MEISENHEIMER

Q. What were Ms. Meisenheimer's concern regarding the Staff's proposed rate design?

A. It appears that she believes that the Staff's proposed Delivery charge rate design proposal:

1. will harm lower use customers as compared to the rate design proposed by OPC in this case (p. 1, line 13 - p. 2, line 10, p. 11, line 8 – p. 13, line 9)
2. removes incentive for customer to conserve usage (p. 18, line 6 – p. 19, line 5)

3. provides little incentive for company to encourage conservation (p. 19, line 6 – p. 20, line 7)
4. guarantees that Atmos will earn its Commission-ordered revenue requirement (Meisenheimer Rebuttal, p. 20, line 8 – p. 23, line 12)
5. is different from any weather or conservation mitigation adjustment used in other states (Meisenheimer Rebuttal, p. 26, line 18 – p. 27, line 13)

Ms. Meisenheimer also expresses concern about the Staff's proposal to divide the current Small General Service (SGS) class into two groups based on annual usage.

IMPACT ON LOW-USE CUSTOMERS

Q. What is Ms. Meisenheimer's concern regarding the delivery charge mechanism and low-use customers?

A. Ms. Meisenheimer is concerned that the change to a fixed delivery charge rate design will substantially increase the non-gas rates for the small users in the Residential class.

Q. Does OPC perform any analysis to substantiate this charge?

A. Yes. To support her position that this change will be detrimental to low-use customers, Ms. Meisenheimer presents an analysis in which she determines, by Atmos' current districts, what selected customers' non-gas bill would be under the current rate structure. She then compares that to the delivery charge calculated by Staff. Finally, she computes the difference between the two rate structures, and the resulting percentage change from current non-gas revenues. (Rebuttal, BAM Schedule BAM REB 8.) Using the results from this analysis, she claims that the lowest use customers would "pay between 52% and

173% more under the Staff's proposed delivery charge mechanism..." (Meisenheimer, p. 11, lines 15-17.)

Q. Do you have any comments about Ms. Meisenheimer's analysis?

A. Yes. When evaluating Ms. Meisenheimer's assertions, there are several things that the Commission should keep in mind. These are:

1. The dollar amounts shown on Ms. Meisenheimer's schedule represent a customer's bill over *two* years, not one year.
2. Ms. Meisenheimer used only the non-gas portion of a customer's bill when calculating and presenting the percentage difference between the current rate structure and the Staff's proposed rate structure, rather than using the bill the customers actually pay, which includes gas costs.
3. Ms. Meisenheimer presented her assertions using percentages, rather than actual dollars. The effect of that, for a given dollar amount, is that the percentage increase to lower-use customers appears to be larger, and the percentage decrease to the higher-use customers looks smaller.

Q. What is the time period used in Ms. Meisenheimer's analysis?

A. The dollar amounts shown for each subset of the Residential class are based on 24 months of usage; therefore, they represent what a customer would pay for two years of service. In reality, the actual *annual* dollar difference in a customer's annual bill from the two rate structures is not as dramatic or as high as it appears to be on Ms. Meisenheimer's BAM REB 8 schedule.

Q. What is your second comment on Ms. Meisenheimer's analysis?

A. Ms. Meisenheimer based her rate structure comparison on the non-gas portion of a customer's bill. While the non-gas portion of the bill may be calculated, I believe that when customers are looking at changes in their bills, they look at their *total* bill amount. Non-gas costs are now only about 20-30% of each customer's bill. Therefore, the actual impact of the non-gas cost portion of the rate structure difference in a customer's bill is significantly lower than Ms. Meisenheimer's analysis appears to show.

Q. Do you have any final comments on the way in which Ms. Meisenheimer performed and presented her analysis?

A. Yes. All of the customer impact information used to bolster Ms. Meisenheimer's assertions are presented in terms of percentages, rather than in terms of dollars. The current customer charge, which will be a significant portion of a low-use customer's bill, ranges from $5 (Greeley) to $9.05 (Palmyra.) To illustrate the effect of presenting a relatively small dollar change as a percentage, let's assume that each district's Residential customer charge increases by $3, and look at the resulting percentage increase:

District	SEMO	Butler	Greeley	Kirksville	Palmyra	Other UCG
Current Customer Charge	$7.00	$7.00	$5.00	$7.00	$9.05	$7.25
Percentage change w/ $3.00 increase	43%	43%	60%	43%	33%	41%

As you see, looking at this change in terms of percentages gives an entirely different impression than looking at it in absolute dollar terms. Depending on the base customer charge, a $3.00 increase produces percentage increases ranging from 33% to 60%. The current volumetric rate is not included in this comparison which would lower the percentages even more.

Q. What are the effects, in dollars, on customers at various annual usage levels?

A. The effect on customers at various annual usage levels is presented in dollars on Schedule 1.

Q. If a customer uses less than the Residential normalized average usage upon which rates were set in this rate case, what effect will adopting the Staff's proposed rate structure have on the customer's annual bill?

A. It will increase the customer's bill by a few dollars during the summer months. There will also be an increase in the winter months; the magnitude of this will depend on the customer's end-use.

Q. What effect will the Staff's Residential rate design proposal have on a household using more than the normalized average annual usage?

A. The customer's bill will increase by a few dollars during the summer months. The decrease in the winter months will be greater than this increase, so the customer's will see a lower bill on an annual basis, as opposed to OPC's rate proposal.

Q. What is the Residential normalized average annual usage for each of the Staff's proposed service territories?

A. The monthly and annual normalized average usage is shown in the table below:

DISTRICT	AVERAGE MONTHLY CCF	AVERAGE ANNUAL CCF
Northeast (NEMO)	70	835
West Central	65	778
Southeast (SEMO)	54	652

Q. Ms. Meisenheimer classifies customers as high use and low use. What type of equipment might a low or high user have in their household?

A. Since Ms. Meisenheimer didn't quantify her classifications of customers as "low users" or "high users", I assume that she means below average and above average Ccf usage. The table below shows the annual average or typical Ccfs associated with various Residential end uses:

END USE	CCF (ANNUAL CONSUMPTION)
Space-heating (Primary fuel)[1]	640 Ccf
Water-Heating (4 persons)[2]	288 Ccf
Gas Fireplace[3]	84 Ccf
Stove (Cooking – 4 people)[4]	24 Ccf

Note that these are estimated figures, and will be affected by usage, efficiency, age of equipment, weather, and other factors.

Q. Can you draw any conclusions from these tables?

A. Yes, I can. The low-usage customers on Atmos' system are most likely customers using the Atmos distribution system to do things like provide fuel for gas fireplace

[1] Table CE2-10c. Space-Heating Energy Consumption in U.S. Households by Midwest Census Region, 2001 – West North Central region
[2] Fuel Comparisons, South Jersey Gas, www.sjindustries.com
[3] ibid
[4] ibid

logs, cook on a gas stove or use a gas water heater. The customers most likely to use more natural gas than the average are those heating their homes with natural gas.

Q. Will the utility's cost to serve a household using a natural gas fireplace for ambiance be less than the cost to serve a household using natural gas for space and water-heating?

A. No. As I explained in my rebuttal testimony (Ross, Rebuttal, p. 7, line 11 – p. 8, line 8), the same plant investment must be made for both users, and there will be no difference in billing, meter-reading, and other expenses.

Q. Under the OPC rate design, will the revenues received from a household using a natural gas fireplace for ambiance be less than the revenues received from a household using natural gas for space- and water-heating?

A. Yes, especially in the winter months.

Q. What is your conclusion?

A. The OPC rate design forces the households that depend on natural gas for their essential space and water-heating needs to subsidize those that use natural gas for non-essential purposes. The subsidy is greatest in the winter heating months, when the space–heating customers' gas use is highest, as are gas prices. This cost differential is not cost-justified, and this subsidy is unfair.

REMOVES CUSTOMER INCENTIVE TO CONSERVE USAGE

Q. What does Ms. Meisenheimer suggest as far as actions that a customer can take to reduce their bill, given the rate structure that OPC supports?

A. Ms. Meisenheimer suggests that a customer can lower their bill by reducing consumption. Another strategy that she suggests is that customers drop off the Atmos system to avoid paying a customer charge. (Meisenheimer, Rebuttal, p. 18, lines 8-11)

Q. What are your comments on these bill-reduction techniques?

A. These proposals are totally inappropriate as a sustainable, reliable conservation strategy. The suggestion that customers can lower their bill by reducing consumption ignores the fact that many customers have already lowered their bill as much as they possibly can using current information and resources that are available to them. The proposal that customers go on and off the Atmos system to avoid paying a customer charge ignores the costs this customer will face using this strategy, such as a disconnection charge or the late charges associated with building up the level of arrearages that would trigger a shut-off for nonpayment. At some point, the customer will have to pay a connection or reconnection fee to regain service. Other customers will end up having to pick up any fixed costs that the customer avoids by dropping off the system for a few months.

Q. By collecting non-gas costs in a fixed monthly charge, will the customer lose all rewards from conservation?

A. No. For the sake of example, let's say that the gas (PGA) charge is $1.00 per Ccf. Under the Staff's proposal, a customer will benefit by $1.00 for each Ccf <u>not</u> consumed. Lower usage due to either conservation or warm weather will still be rewarded, and Staff believes that customers will still have an incentive to practice conservation measures..

PROVIDES LITTLE INCENTIVE FOR THE LDC TO PROMOTE CUSTOMER CONSERVATION

Q. You said a moment ago that some customers had already conserved as much as possible using *the current information and resources available to them.* How can Staff's proposed rate design increase the informational and other resources to assist a Residential or Small General Service customer who wishes to adopt conservation measures?

A. If the Commission adopts Staff's proposed rate design, our natural gas utilities will no longer act against their shareholders' interests by assisting and educating customers with conservation/weatherization activities. The utility will not have any reason to avoid or limit this type of action. I am certain that, with the Commission's encouragement, LDC's will be willing to set up these programs.

Q. What incentive does a utility have to promote conservation activities if the Staff's proposed rate design is accepted?

A. The utility will have some customers whose bill increases because they are now paying the true cost of serving them. Since the utility can no longer offer an artificially low price to these customers, it will have to compete on non-price bases, such as providing service quality or assistance saving energy, which, given the present high level of gas commodity prices, will result in decreasing a customer's bill.

Q. What is another positive effect of the Staff's Delivery charge rate design?

A. Customers will have accurate price signals on which to base their decisions.

Q. How will the Staff's rate design benefit all customers by providing the correct price signal to potential customers?

A. A regulated utility's *obligation to serve* means that, if a customer in Atmos' service territory wishes to take natural gas service, they need only call the Company and request it. If customers in a new subdivision wish to connect to the Company's distribution system, their expected usage will not be a factor in the utility's decision to serve them. Currently, under the OPC rate design case, a household that uses only a gas fireplace faces an artificially low price for taking gas service; i.e., the customer charge plus a few dollars based on usage. Once this type of end-user decides to take service, the revenue from this household does not cover the Company's cost to provide service to the home. The true cost to provide service to this customer is subsidized by the larger users. Once a fixed charge is set that reflects the utility's actual cost to serve a Residential customer, I believe that fewer small customers will find it economic to sign up, thus reducing the intra-class subsidy flowing from the space-heating households to the others.

GUARANTEES COMPANY REVENUE REQUIREMENT

Q. What are your comments regarding OPC Witness Meisenheimer's assertions that Staff's rate design will guarantee the company's revenue requirement?

A. While the Staff's rate design does reduce the Company's weather risk, the Company still faces other business risks. Risk, and the appropriate return is discussed by Staff witness Matthew Barnes.

MECHANISM IS DIFFERENT FROM THOSE IN OTHER STATES

Q. OPC Witness Meisenheimer faults Staff's rate design because it differs from that used in other states. How do you respond to this charge?

A. Missouri is unique in that it is the only state of which Staff is aware whose legislature has enacted a law that provides gas (and electric) utilities the ability to institute

weather and conservation adjustment surcharges. Staff's rate design attempts to avoid complicated schemes that result in phantom rates or volumes, such as the weather normalization adjustment proposed by Atmos in this case. Staff believes that its rate design is a simple, understandable, appropriate recovery mechanism that de-couples the cost of serving the customer from the customer's energy consumption. .

Q. Do you have any final comments in support of the Staff's proposed Delivery Charge rate design for the Residential and Small General Service class?

A. Yes, I do. I want to point out that this is a wonderful opportunity for this Commission to do a great deal of good for a great number of people. As the Commission is aware, the level of LIHEAP funds hasn't been increasing, and it remains to be seen whether funds will be appropriated for Missouri's Utilicare fund for the upcoming winter. There are some other utility, community, church and private funds available to help customers pay their utility bills, but these funds don't take up all the slack. Even after adding up these available resources, the need far outstrips the money Missouri has to meet that need; furthermore, that same need will be there next year, and the next, and the next, because we haven't done anything to change the situation. Paying a customers' bill or relaxing the standards for reconnection in the winter helps during a crisis, but as a long-term solution, it is inadequate. For many Atmos customers, conservation and efficiency are the measures that will make a permanent difference in their quality of life.

Missouri does not have unlimited funds to finance these measures, either, so it is going to take all of the stakeholders working together to provide the most efficient, effective use of the monetary and other resources that we do have. I believe that the LDCs have the most to offer due to their knowledge, their customer information database, and the

relationships that they have with their customers and communities. However, there is one very real problem, and it is caused by the current rate design. **As long as fixed costs are collected on a volumetric basis, compelling an LDC to actively promote conservation means that the Commission is compelling them to act contrary to their shareholders' interests.**

We have an opportunity in Missouri to align the interests of shareholders and customers.. The Missouri legislature has spoken via Senate Bill 179 (SB 179), and is saying is that it believes that revenue stability for Missouri LDCs is desirable. I am aware that some parties do not consider that to be the role of regulators, but SB 179 clarifies that it is.

In this case, the Commission has before it two very different proposals on how small, homogenous, weather-sensitive customer rates should be designed:

Choice 1: The Commission rules in favor of the OPC proposal of status quo – a customer charge and a volumetric charge. The households that depend on natural gas for their space-heating needs will continue to subsidize the households who use their gas service only for cooking or using their gas fireplaces. At some point in the near future, the SB 179 rules will be put in place and it will become an issue, so all the stakeholders will sit down together, and debate the merits of various complicated methods designed to make utility revenues less sensitive to customer usage. Parties will argue about the proper weather stations to use, and whether ten-year weather normals are better than thirty- year weather normals to use when calculating Heating Degree Days, and so on. Companies will be resistant regarding requests to expand their weatherization or conservation activities, as these actions have an adverse effect on their shareholders. Once the Commission makes their decision(s) on these matters, the LDCs will begin to convert or replace their computer billing

systems to handle this complicated new task, and customer service personnel at the Company and the Commission will be trained for the upcoming job of trying to explain the rate structure to the 85 year-old customer that calls in asking why their rate goes up when his or her usage goes down.

The new system will go online. Some people's bill will increase, others will decrease. It will be business as usual, until the next rate case, when we do it all over again.

Choice 2: The Commission adopts the Staff's Delivery Charge proposal. Some customers' bills will increase by a few dollars, and some will decrease. As a condition of receiving a limited guarantee of revenue stability, the LDC should make strong and specific commitments regarding conservation and efficiency actions that will encourage and assist their customers in making this type of investment. The customer will be a full partner in the process, rather than a passive recipient of aid. Not only will consumers be educated about conservation and efficiency, but also about the nature and cost of the natural gas service they receive from the LDC, and they will be able to make informed decisions when spending their energy dollars. The Company will not have to file frequent rate cases asking for surcharge or other mechanisms with which to recover non-gas costs. Everybody wins.

OPC CONCERNS REGARDING NON-RESIDENTIAL RATE DESIGN

Q. What concerns did Ms. Meisenheimer express regarding the Staff's proposed rate design for the non-Residential customers?

A. Ms. Meisenheimer conducted an analysis of the SGS customer information, and used that to calculate rates for the proposed SGS and Medium General Service (MGS) classes. She then expressed concern that the rates would be discontinuous; ie, for a customer

whose use is right at the breakpoint for a class, they would pay a significantly different amount depending on the rate under which they were served.

Q. What are your comments on this matter?

A. As I stated in my direct testimony (Ross, Direct, p. 17, lines 8–22), a more detailed analysis will need to be done on these customers before rates can be calculated, and I listed three specific factors that should be considered when designing the rates. That is still my position.

STAFF RESPONSE TO ATMOS WITNESSS GARY L. SMITH

Q. In Company witness Gary Smith's Rebuttal testimony, he discusses the concept of scupting rates to lower the summer delivery charge by raising the winter delivery charge. Does Staff oppose this proposal?

A. No. However, Staff maintains that a single delivery charge for all months of the year would result in lower bills in the winter, when residential customers typically struggle to pay their gas bills.

Q. Does this conclude your testimony?

A. Yes

ATMOS ENERGY COMPANY
CASE NO. GR-2006-0387
COMPARISON OF OPC AND STAFF RESIDENTIAL RATE DESIGN PROPOSAL IMPACT IN DOLLARS

Current ATMOS District	Annual Ccf Usage ->	200	300	400	500	600	700	800	860	900	1000
	Non-gas Rate										
SEMO											
Customer Charge	$7.00	$109.06	$121.59	$134.12	$146.65	$159.17	$171.70	$184.23	$191.75	$196.76	$209.29
Commodity Charge	$0.12529										
Proposed Delivery Charge	$14.77	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24
Annual Bill Increase/Decrease		$68.18	$55.65	$43.12	$30.60	$18.07	$5.54	($6.99)	($14.51)	($19.52)	($32.05)
Monthly Bill Increase/Decrease		$5.68	$4.64	$3.59	$2.55	$1.51	$0.46	($0.58)	($1.21)	($1.63)	($2.67)
NEELYVILLE											
Customer Charge	$7.25	$137.56	$162.84	$188.12	$213.40	$238.68	$263.96	$289.24	$304.41	$314.52	$339.80
Commodity Charge	$0.25280										
Proposed Delivery Charge	$14.77	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24	$177.24
Annual Bill Increase/Decrease		$39.68	$14.40	($10.88)	($36.16)	($61.44)	($86.72)	($112.00)	($127.17)	($137.28)	($162.56)
Monthly Bill Increase/Decrease		$3.31	$1.20	($0.91)	($3.01)	($5.12)	($7.23)	($9.33)	($10.60)	($11.44)	($13.55)
BUTLER											
Customer Charge	$7.00	$119.91	$137.86	$155.82	$173.77	$191.72	$209.68	$227.63	$238.40	$245.59	$263.54
Commodity Charge	$0.17954										
Proposed Delivery Charge	$19.43	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16
Annual Bill Increase/Decrease		$113.25	$95.30	$77.34	$59.39	$41.44	$23.48	$5.53	($5.24)	($12.43)	($30.38)
Monthly Bill Increase/Decrease		$9.44	$7.94	$6.45	$4.95	$3.45	$1.96	$0.46	($0.44)	($1.04)	($2.53)
GREELEY											
Customer Charge	$5.00	$123.84	$155.76	$187.68	$219.60	$251.52	$283.44	$315.36	$334.51	$347.28	$379.20
Commodity Charge	$0.31920										
Proposed Delivery Charge	$19.43	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16	$233.16
Annual Bill Increase/Decrease		$109.32	$77.40	$45.48	$13.56	($18.36)	($50.28)	($82.20)	($101.35)	($114.12)	($146.04)
Monthly Bill Increase/Decrease		$9.11	$6.45	$3.79	$1.13	($1.53)	($4.19)	($6.85)	($8.45)	($9.51)	($12.17)

Schedule 1-1

ATMOS ENERGY COMPANY
CASE NO. GR-2006-0387
COMPARISON OF OPC AND STAFF RESIDENTIAL RATE DESIGN PROPOSAL IMPACT IN DOLLARS

Current ATMOS District	Annual Ccf Usage ->	200	300	400	500	600	700	800	860	900	1000
	Non-gas Rate										
KIRKSVILLE											
Customer Charge	$7.00										
Commodity Charge	$0.07500	$99.00	$106.50	$114.00	$121.50	$129.00	$136.50	$144.00	$148.50	$151.50	$159.00
Proposed Delivery Charge	$21.79	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48
Annual Bill Increase/Decrease		$162.48	$154.98	$147.48	$139.98	$132.48	$124.98	$117.48	$112.98	$109.98	$102.48
Monthly Bill Increase/Decrease		$13.54	$12.92	$12.29	$11.67	$11.04	$10.42	$9.79	$9.42	$9.17	$8.54
PALMYRA											
Current Customer Charge	$9.05										
Commodity Charge	$0.07495	$123.59	$131.09	$138.58	$146.08	$153.57	$161.07	$168.56	$173.06	$176.06	$183.55
Proposed Delivery Charge	$21.79	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48
Annual Bill Increase/Decrease		$137.89	$130.40	$122.90	$115.41	$107.91	$100.42	$92.92	$88.42	$85.43	$77.93
Monthly Bill Increase/Decrease		$11.49	$10.87	$10.24	$9.62	$8.99	$8.37	$7.74	$7.37	$7.12	$6.49
HANNIBAL/CANTON/BOWLING GREEN											
Customer Charge	$7.25										
Commodity Charge	$0.25280	$137.56	$162.84	$188.12	$213.40	$238.68	$263.96	$289.24	$304.41	$314.52	$339.80
Proposed Delivery Charge	$21.79	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48	$261.48
Annual Bill Increase/Decrease		$123.92	$98.64	$73.36	$48.08	$22.80	($2.48)	($27.76)	($42.93)	($53.04)	($78.32)
Monthly Bill Increase/Decrease		$10.33	$8.22	$6.11	$4.01	$1.90	($0.21)	($2.31)	($3.58)	($4.42)	($6.53)

Exhibit No.:
Issues: Rate Design

Witness: Michael J. Ensrud
Sponsoring Party: MO PSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2006-0387
Date Testimony Prepared: October 31, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
October 2006

Staff Exhibit No. 115
Case No(s). GR-2006-0387
Date 11-30-06 Rptr PF

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 Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 2 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Michael J. Ensrud

Subscribed and sworn to before me this 30th day of October, 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer
Notary Public

My commission expires 9-21-10

REBUTTAL TESTIMONY

OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name and business address.

A. My name is Michael J. Ensrud, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Michael J. Ensrud who filed Direct Testimony in this case?

A. Yes. I am.

Q. What issues do you plan to address in rebuttal issues?

A. The issues I plan on addressing have to do with miscellaneous tariff charges as it exists after discussions with the parties to this case.

Q. Has any additional information regarding Atmos' NSF charge proposal and 2% L&U gas proposal been brought to your attention since you filed your Direct Testimony in this case?

A Yes. Atmos has submitted revised data concerning the number of customers affected by the Non-Sufficient Funds (NSF) charge. I will be filing Corrected Direct Testimony to rectify the various counts presented in my original Direct Testimony. Also, I received conflicting information regarding the Lost & Unaccounted (L&U) Gas for transport customers. Nothing in the way of corrections to my Direct Testimony would change any of my recommendations in Direct Testimony.

Q Have you any other comments regarding your Direct Testimony?

A. Yes. I was present for many of the settlement conference meetings, and nothing was brought to my attention that would change the substance of the testimony.

Q. Does this conclude your Rebuttal Testimony?

A. Yes, it does.

Exhibit No.:	
Issues:	Rate Design
Witness:	Michael J. Ensrud
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Surrebuttal Testimony
Case No.:	GR-2006-0387
Date Testimony Prepared:	November 13, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
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 Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 13 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Michael J. Ensrud

Subscribed and sworn to before me this 9th day of November, 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Notary Public

My commission expires 9-21-10

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OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

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SURREBUTTAL TESTIMONY

OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q Please state your name and business address.

A. My name is Michael J. Ensrud, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Michael J. Ensrud who filed Direct Testimony, Corrected Direct Testimony, and Rebuttal Testimony in this case?

A. Yes. I am.

Q. What issues do you plan to respond to in Surrebuttal issues?

A. The issues I plan to respond to are summarized in the Executive Summary.

EXECUTIVE SUMMARY

Issues that I will address are as follows:

Respond to points raised by Atmos Energy Corporation (Atmos) Witness Patricia J. Childers in Rebuttal Testimony. Points to be addressed:

- Clarification of Atmos' 2% L&U Gas Provision
- Respond to points raised by the Office of Public Counsel (OPC)
- Witness Barbara A. Meiseheimer in Rebuttal Testimony.

Points to be responded to are as follows:

- Atmos' Miscellaneous Service Charges
- Main Extension Policy Proposal

- Atmos Economic Development Rider Proposal
- Reconnects

ATMOS' TRANSPORTATION GAS LOST & UNACCOUNTED PROPOSAL

Q. What is your response to Atmos Witness Childers assertion that your recommendation (the Commission should impose fines if Atmos can not re-establish the ability to measures actual loss) is too harsh? (See Rebuttal p. 6, lines 5-17)

A. The Staff would seek penalties if Atmos does not meet Staff's requirements at the end of the two year period. While Staff does concur (as an interim step) with Atmos' 2% company-wide L&U gas proposal, Staff also recommends a subsequent re-establishment of the ability to use actual measurements of loss when billing transport customers for L& U gas.

Atmos seems to believe the use of arbitrary surrogates is sufficient for billing purposes. Staff does not. Lack of accurate measurement of L& U gas impacts equity concerns, financial concerns and safety concerns.

Without proper measurement of loss, a cross-subsidy could take place. The direction of that possible subsidy flow depends on what the actual experienced L&U is.

We do not know the financial impact of this issue on rates because L&U loss is unknown without an accurate measurement. Atmos is assigning transportation customers a 2% L&U factor, which is reasonable for a well functioning system. To reveal the actual L&U taking place, Atmos needs to regain the ability to accurately measure. While Atmos did provide information on the revenue impact of changing from the 1.43% factor to the 2% factor, the information is devoid of the impact of the actual L&U for transportation

customers. Also, without the ability to measure accurately, firm customers are uncertain of their L&U factor.

Finally, there is the safety issue. The ability to measure the L&U is critical to the safety issue. While Atmos has assured Staff many times that there is no major leakage of gas taking place on its system, the ability to accurately measure L&U gas is needed.

For all these reasons, Staff has assigned a high priority to an eventual return to a system that recognizes true L&U, and that brings about equilibrium between what transportation customers pay and what firm customers pay.

Q. What did Atmos Witness Childers say about Staff's "cooperation" on this matter?

A. Atmos Witness Childers states: "Atmos is committed to keeping Staff informed of its progress in getting this issue **resolved in a cooperative manner**." (Emphasis Added) (Rebuttal p.6 lines 16 - 17)

Q. How do you respond?

A. Staff believes that our willingness to initially accept the arbitrary 2% figure, followed by a 24-month period to allow Atmos to regain the ability to accurately measure is being "cooperative". The problem has existed since 2004. Atmos acknowledges that the 4.5% is "not indicative of real gas system losses" (See response to Staff's DR No. 53), and implies that work is in progress to fix the problem. No anticipated completion date has yet to be provided.

Staff asserts that its proposal is reasonable. Staff perceives this recommendation as providing an adequate timeframe before the Staff would seek fines.

Let me; again, set forth my proposed time schedule:

Initially, Atmos is allowed to utilize its proposed 2% methodology. Atmos files a report every six-months providing Staff with the current actual L&U gas figure. Atmos must state whether the figure being reported is a real reflection of actual loss.Once Atmos has real figures, it must compare it to the 2% figure. If the reported figure deviates by more than 25% from the arbitrary 2% (below 1.5% / above 2.5%), Atmos must file a revised L&U percentage with the Commission. After 24-months of accurate reads (possibly 48 months from implementation) Atmos will revert to using the 24-month formula in place today.

Again, Staff contends this is a reasonable approach that offers Atmos ample opportunity to resolve the measuring problem and avoid being subject to the Staff seeking Commission approval to impose fines.

ATMOS' MISCELLANEOUS (ACTIVATION) CHARGES PROPOSAL

Q. What is your response to Witness Meiseheimer (Rebuttal p.36, line 1 - p.38, line 16) concerning various miscellaneous charges?

A. Developments in Atmos Witness Childers' Rebuttal Testimony may need to be considered in conjunction with OPC Witness Meiseheimer's Rebuttal Testimony. Witness Childers states: "Atmos is willing to accept Commission Staff Witness Ensrud's recommendations". (Rebuttal p. 5, lines 3 - 4) The rates that I sponsor are lower than what Atmos initially proposed.

Some of my proposed rates are higher and lower than the current rates. **All of Staff's proposed rates are cost based, with the exception of the Insufficient Funds Check charge.**

OPC witness Meiseheimer states:

Q. ARE THERE SIMILAR BENEFITS TO KEEPING THE RECONNECTION FEE AT MORE AFFORDABLE LEVELS THAN THE RATE PROPOSED BY THE COMPANY?

A. Yes. Many of the same consumer groups financially vulnerable to increased connection fees are also financially vulnerable to increased reconnection fees. In addition, where the **reconnection fee** at the proposed level may pose an insurmountable obstacle for a customer to reinstate service, I find it reasonable to assume the Company would face an increased risk of writing off uncollected bill accounts. Ultimately, this write off would flow through to the remaining customer base. [Emphasis added]

Assuming my proposed reconnection fees had been in place during the test year, customers utilizing reconnections would have paid approximately $29,000 less than what they paid under current rates. In short, my proposed rates are a reduction to the currently-established reconnection charges.

Q. Do you have any other examples of where your proposed rates comply with the philosophy expressed by OPC Witness Meiseheimer?

A. Yes. OPC Witness Meiseheimer states: "Unless a connection charge can be shown to be priced below incremental cost, there is little support for the notion that existing customers are made significantly worse off by retaining a lower connection charge for new customers." (Rebuttal p. 37, lines 16 - 18)

Since the existing connection charge is zero, it is a foregone conclusion that this service is currently priced below incremental cost. (No reasonable person can assert that there are no costs involved when a customer calls a dispatch center and requests that Atmos dispatch an employee, in a company-provided truck, to establish service.)

Clearly, transfers, likewise, meet the criterion that OPC Witness Meiseheimer's comments assert are a prerequisite to establishing a charge.

Since the two "new" charges meet the criterion that OPC Witness Meiseheimer sets forth as justification to avoid retention of the status quo, it is reasonable to conclude that these charges should be implemented. Both connections and transfer are currently priced below incremental costs.

In its response to Staff's DR No. 151, Atmos asserts that the cost for connections and reconnection are $23.56 per-occurrence during business hours, and $50.09 per-occurrence outside business hours. Staff's analysis indicates that these amounts are representative of the cost to perform these services.

Likewise, nothing provided to date refutes the NSF cost and the transfer cost rates proposed by Staff.

The existence of these unchallenged costs is a compelling reason to change the existing rates to a cost basis. These representations are at odds with OPC Witness Meiseheimer's suggestion that no such reasons exist to change the existing rates. (Rebuttal p. 36 lines 13 - 14) Again, the record indicates some of the existing rates are above costs and some are below costs. Staff's proposed rates are reflective of underlying cost. That is the primary justification to migrate to Staff's proposed rates.

Q. What is your reaction to OPC Witness Meiseheimer's comments concerning miscellaneous rates that vary substantially by district? (Direct p. 36, line 11)

A. MGE, Ameren and The Empire District Gas Company all have established the multi-district / statewide miscellaneous-charge pricing. There is nothing odd or sinister about what Atmos is proposing. The Commission has already accepted similar rate structures three times.

Q. Do you challenge the underlying argument that subsidized miscellaneous charges greatly benefit the typical low and moderate income customer? (See Meiseheimer Rebuttal p.37, ls. 6 - 11)

A. Yes. Any rate increase works a greater hardship on the low and moderate income because they have limited discretionary income. There is no evidence as to whether the low and moderate income customers, as a group, benefited or suffered by having under priced miscellaneous charges / over-priced monthly charges.

Q. Did the low and moderate income customers who utilized miscellaneous services benefit by having those rates subsidized?

A. Most assuredly that was the case, but so did the economically advantaged customer who would also utilize a subsidized service. The low and moderate income customers who did not use miscellaneous services provided a subsidy to those who used miscellaneous charges. On the other hand, the economically advantaged customers not utilizing miscellaneous services would likewise have to pay the same subsidy.

The Commission should not act on OPC Witness Meiseheimer's position as it relates to the retention of miscellaneous charges. The miscellaneous charges should reflect the cost of providing those services.

A myopic concern for a particular economic stratum should not be all-controlling in designing miscellaneous rates. OPC Witness Meiseheimer's seems to presuppose that the low and moderate income groups' needs are controlling when designing rates. While the low and moderate income stratum may deserve consideration, that consideration should not be all encompassing. By having the miscellaneous charges under-priced, no cost disappears. It is merely re-directed.

MAIN EXTENSION POLICY PROPOSAL

Q. Do you have any response to OPC Witness Meiseheimer's comments on Atmos proposed main extension policy? (Rebuttal p. 38, line 17 – p. 39, line 7)

Yes. Nothing OPC Witness Meiseheimer says impugns the validity of abandoning an outdated policy of main extension and replacing it with a financially-based method of allocation of main extensions. The primitive (150 feet) method of allocation ignores potential revenues streams and potential costs associated with any particular, potential customer.

Even an allotment of a uniform $500 credit to all seeking a main extension would be more cognizant of underlying cost than is the antiquated 150-feet-free policy now in existence. At least there would be equity in the amount of cost defrayed.

Q. Is that what Atmos is proposing?

A. No. Atmos proposes the use of a computer model that estimates **both** the cost of the main extension and the revenues that will be derived from having the potential customer commence purchasing service from Atmos.

Q What is the support for your recommendation?

A. Pure adherence to a cost ideology would dictate that the customer should pay all costs associated with establishing service. After all, that customer is the primary beneficiary of the particular main extension. However, Staff is not recommending that the Commission go that far. Such an abrupt change is not justified.

A more reasonable and transitional approach is to continue to provide allowances. Without the continuation of allowances, potential customers might use propane or electricity, in lieu of Atmos' service. The computer model approach still grant customers the traditional allowance, but merely does so on a cost / benefit basis.

It is intransigent to be "locked in" to a 150-foot allowance methodology if more scientific methods of allocation are now available. It is time to incorporate financial principles into the main allocation process.

Atmos' proposal is a good transition from a method of allocation whose time has past, but a continuation of a long-standing practice has merit.

Atmos already has a methodology that incorporates underlying cost to some degree. It counts each and every dollar of cost after initially ignoring the fluctuating dollars of cost associated the initial 150 feet of installation. This approach is unreasonable if it is possible to count costs from "dollar one".

Atmos is proposing to replace this crude allocation with a more sophisticated, scientific application that incorporates "dollar one" of cost, and base the offset, not on raw footage, but on the projected revenue stream of the project. From this perspective, Atmos' proposal is merely a refinement on the status quo.

The use of financial projections (both revenues & costs) will produce a more equitable and more reasonable distribution of main extensions allotments.

ATMOS' ECONOMIC DEVELOPMENT RIDER PROPOSAL

Q. How do you respond to OPC Witness Meiseheimer comments concerning Atmos' proposed Economic Development Rider (EDR)? (Rebuttal p. 3, lines 24-26)

A. The statement is not true. At a minimum, it misses a very important safeguard that is likely to prevent what OPC Witness Meiseheimer is predicting will happen. The statement is as follows: "11. The Company proposes to implement an economic development rider that would force residential and small business customers to subsidize industry discounts once such discounts are incorporated into rates."

This statement presupposes that any customer availing itself of this promotion will incur greater costs than the revenues that will be generated by that customer. While it is a possibility that a qualifying customer could have costs exceeding revenues, it is unduly pessimistic to presuppose this will always be the outcome. A far more likely scenario is the new customer (assuming one can be attracted) will generate revenues and defray fixed costs to the point that both Atmos stockholders and customers will benefit. If the new customer stays on Atmos' system long enough, then the "fronted" incremental costs and "fronted" discounts will be offset by the new revenue stream generated by enticing a customer to establish service in Atmos area.

Further, a new customer or a qualifying expansion, at least, has the potential to spur economic development. Secondary benefits such as more jobs, a large variety of new tax revenue, increasing property values, as well as other benefits, might, potentially result if an EDR is successful in attracting a new customer or the expansion of an existing business to Atmos' serving areas.

Q. If Staff detected that Atmos' EDR promotion was playing out the worst-case scenario and Atmos was losing money by offering the EDR promotion, what could be done?

A. The Commission could discontinue the EDR promotion in future rate cases, under such circumstance. If a promotion can be demonstrated to have negative result, there is no obligation to continue offering such a promotion.

Q. What about the interim impact - between rate cases - of such a promotion?

A. Since Atmos got no adjustment as part of this case - either good or bad, the impact of a negative promotion, in the future, would befall the Atmos stockholders in the

interim - up to Atmos' next rate case. On the other hand, if the promotion is highly successful, the fruits of that promotion are reaped by Atmos' stockholder - in the interim

Q. Is there any other justification to approve the EDR discount?

A. Yes. There are other economic development riders that are implemented and, as of yet, there is no known demonstrated negative ramification stemming from these other promotions.

Since MGE's current existing promotion is acceptable and in operation then Atmos' proposal should also have merit. Where Atmos has a uniform 25% discount over 4-years, MGE has adopted a "front-end" loaded discount scheme – meaning a 30% discount in the first year, followed by 25% in the following year. Atmos' proposed rate structure mitigates the risk when compared to MGE's existing rate structure. Atmos' proposal is also superior to Kansas City Power & Light Company's tariff that also contains front-end loaded discount scheme.

RECONNECTS

Q. What is your reaction to concerns expressed by OPC Witness Meiseheimer concerning your two-step Reconnection Fee? (See Rebuttal p. 2, lines 1 - 17 and p 7, lines, 1 - 6)

A. While OPC Witness Meiseheimer understands the mechanics of the concept correctly, her characterization of the concept is wrong.

In the current environment, approximately 7,000 customers (out of approximately 70,000 customer base) disconnect from Atmos service for a month or more every year. (See Atmos' response to Staff's DR No. 230) These customers reconnect and return to using gas –

generally in a colder time of the year. Customers who follow this pattern are referred to as "seasonal customers".

The number of customers availing themselves of seasonal disconnects demonstrates the problem is material. The conversion to a delivery charge may increase the frequency of seasonal disconnects because the potential summer savings are increased. The point is: there needs to be an effective deterrent to seasonal disconnects. Otherwise, the potential exists for greater cost-shifting than exists today.

Q. How do you characterize OPC Witness Meiseheimer's comments as to the effectiveness of the status quo?

A. In OPC Witness Meiseheimer's Rebuttal Testimony, the implication is that the seasonal disconnect is not a problem. (Rebuttal p. 2, lines 13-15) The facts of the situation refute that everything is functioning well.

The existing deterrent is proving to be ineffective. Atmos is presently experiencing a 10% seasonal disconnect rate of occurrence. Failure of the current attempts to dissuade customers from engaging in seasonal disconnect justifies more stringent deterrents.

The practice of engaging in seasonal disconnect may be very beneficial for the interests of the particular customer who engages in this activity, but it diverts additional costs to the residual customer base who retains their service year around. These are costs that rightfully belong to the seasonal disconnect customer. The year-around customer ends up paying all distribution cost rightly assigned to that particular customer plus an allocation of the costs dodged by those customers who engage in seasonal disconnect.

If one recognizes that the majority of delivery charges are fixed and sunk, taking a summer hiatus from paying the delivery charge may be self-serving, but detrimental to others.

OPC Witness Meiseheimer states the following:

> Under this proposal a reconnecting residential or small business customer would be required to **pay all delivery charges** for the months the customer was disconnected. This would result in seasonal customers paying the Company the same non-gas revenue as customers receiving year-round service. **(Emphasis added)** (Rebuttal p. 7, lines 3-6)

My response to this position is that customers who actually partake of service irregularly, but do so habitually, should pay all those fixed and sunk costs that the seasonal disconnect customer avoids in the summer, but eventually enjoys - in the winter - when the service has the greatest value. Without Atmos making sunk and fixed expenditures, the seasonal-disconnect customers could not obtain service anytime of the year. The delivery cost remains constant from month to month. These characteristics justify a two-component reconnection charge as proposed by Staff that attempts to prevent seasonal disconnect customers from "hopping" in and out of service.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

Exhibit No.:	
Issues:	Rate Design
Witness:	Michael J. Ensrud
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Corrected Direct Testimony
Case No.:	GR-2006-0387
Date Testimony Prepared:	November 8, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

CORRECTED DIRECT TESTIMONY

OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
November 2006

Staff Exhibit No. 117
Case No(s). GR-2006-0387
Date 11-30-07 Rptr PF

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 Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on his oath states: that he has participated in the preparation of the following Corrected Direct Testimony in question and answer form, consisting of 5 pages of Corrected Direct Testimony to be presented in the above case, that the answers in the following Corrected Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Michael J. Ensrud
Michael J. Ensrud

Subscribed and sworn to before me this 8th day of November, 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer
Notary Public

My commission expires 9-21-10

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OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

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Atmos' Transportation Gas Lost & Unaccounted Proposal 3

CORRECTED DIRECT TESTIMONY

OF

MICHAEL J. ENSRUD

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name and business address.

A. My name is Michael J. Ensrud, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Michael J. Ensrud who filed Direct Testimony in this case?

A. Yes. I am.

Q. What issues do you plan to correct in Corrected Direct Testimony?

A. The issues I plan to correct in my Direct Testimony are summarized in the Executive Summary.

EXECUTIVE SUMMARY

Issues that I will address are as follows:

Atmos initially proposed to raise its non-sufficient funds charge (NSF charge) to $30.00 for all the Company's service area. Staff supports a $15.00 NSF charge. Simultaneously to Staff filing Direct Testimony, Atmos supplied a Revised Response to DR No. 151 that contradicted figures presently in Staff's Direct Testimony. Staff lacked the opportunity to incorporate the revision into its Direct Testimony.

Staff supports Atmos' attempt to change the current Gas Lost & Unaccounted (L&U) adjustment applicable to transportation customers. The proposal is to initially use a flat 2% adjustment. This was an interim recommendation, and should be revised after Atmos re-gains the ability to measure actual gas loss. Atmos supplied additional information on October 11,

2006 that materially altered staff understanding of what was transpiring in relation to this issue.

Atmos' Returned Payment Charge Proposal

Q. Is there any revision to your Direct Testimony that you want to make?

A. Yes. Atmos submitted revised figures for the number of NSF checks that they experienced. The revised NSF counts came too late to be incorporated into Direct Testimony. My Direct Testimony contains:

> The reality of this particular situation, however, is that the vast majority of Atmos customers have paid a $15.00 NSF charge under the current rate structure. The information Atmos provided in Staff DR No. 151 indicated that of the 1395 occurrences of NSF charges applied (between 2002 and 2004); there were 1393 occurrences where the $15.00 NSF rate was charged. There were only two occurrences where the $10.00 NSF charges were applied over the three-year period. For all practical purposes, Atmos currently has a $15.00 NSF charge today. The rate that I am proposing, for the vast majority of customers, constitutes retention of the status quo. It is a practical consideration which causes me to recommend retention of the current $15.00 NSF, even though underlying cost calculates out to $12.14 per-occurrence. (Ensrud Direct, p. 3, l. 15 to p. 4, l. 2)

The figures included in my Direct Testimony are being superseded. Atmos provided updated figures as part of the revised version of Staff DR No. 151. The revised figures change this paragraph to the following:

> The reality of this particular situation, however, is that the majority of Atmos customers have paid a $15.00 NSF charge under the current rate structure. The information Atmos provided in revised Staff DR No. 151 indicated that of the 3117 occurrences of NSF charges applied (between 2002 and 2005); there were 2340 occurrences where the $15.00 NSF rate was charged. There were only 777 occurrences where the $10.00 NSF charges were applied over the four-year period. Atmos currently has a $15.00 NSF charge today for the majority of its customers. The rate that I am proposing, for the majority (75%) of customers, constitutes retention of the status quo. It is a practical consideration which causes me to recommend retention of the current $15.00 NSF, even though underlying cost calculates out to $12.14 per-occurrence.

Q. Do the revised figures that Atmos submitted change your opinion as expressed in your Direct Testimony?

A. No. The revised figures do not change my already-filed position in Direct Testimony.

Atmos' Transportation Gas Lost & Unaccounted Proposal

Q. What corrected testimony do you have concerning your recommendation about Atmos' 2% loss proposal?

A. Atmos has supplied subsequent information (after Direct Testimony) to Staff that raises further questions.

In response to Staff's DR No. 53, Atmos reports that L&U percentage for gas lost was 4.5% for 2004 and 5.00% for 2005. Staff can only read this very high loss figure as attributable to one of two things. Either Atmos is losing gas through its facilities somewhere, or Atmos is having a problem measuring the amount of gas loss that is actually occurring.

Atmos' tariff for Areas K, B and S contains a formula requiring that: "[t]he Company shall retain a loss and unaccounted for (L&UG) percentage equivalent to the actual percentage for the proceeding 24 month period, for the district in which the transportation service is being provided".

The traditional tariff application of L&U gas would be to charge the transport customer 4.75%, given what was reported in Atmos' response to Staff' DR No. 53 and the aforementioned tariff language.

However, in Atmos' response to Staff's DR No. 223 indicates that Atmos has failed to follow its tariffed practice concerning applying L&U gas adjustment to transport customer. It

would appear Atmos has merely applied 1.43% ever since Atmos acquired Associated Natural Gas (ANG) for some customers. Staff asked the following question:

> Under the current method of calculating Gas Lost & Unaccounted adjustment applicable to transport customers, 2006 transport customers will pay 4.75% (average of 2004 loss (4.5%) & 2005 loss (5%)) for Gas Lost & Unaccounted adjustment. If not a 4.75% assessment factor, what is Atmos charging transport customers today? Where is that provision tariffed?

In its response to Staff DR No.223 Atmos states in part "... In areas S and K Atmos is charging **1.43% loss** to transportation customers. This was the amount being charged by ANG at the time Atmos acquired ANG." **[Emphasis added]**

Atmos' application of this method is clearly at odds with its existing tariff. The Direct Testimony language in question was as follows: "Currently, the adjustment is based upon measured network loss that 'actually' occurred during the last 24-months for Atmos' entire Missouri system". (Ensrud Direct, p. 11, ls. 7-9)

The record should now reflect that Atmos is charging some customers 2% for L&U gas and is charging 1.43% for L&U to other customers, in lieu of following the provisions in the tariff. The proposed policy is that the 2% L&U will be applied company-wide.

Q. How much of an increase does Atmos assert will result from increasing the L&U gas from 1.43% to 2.0%?

A. In an e-mail, Atmos asserts that this change will generate $60,527 annually.

Q. Is there any other relevant issue that came to light after the Direct Testimony?

A. Atmos also asserts (in a different E-mail) that L&U is flowed through the **P**urchased **G**as **A**djustment (PGA). That means the Commission need not concern itself with how much money is being generated, but this development emphasizes that there needs to be a mechanism that matches what transport customers should pay for L&U gas and what the

firm customers should pay for L&U gas. If equilibrium between classes is not achieved, one class of customer will end up subsidizing the other.

Q. How does this development change your recommendation?

A. Staff's position remains the same.

Q. Does this subsequent development of tariff provisions being ignored change your solution to the problem of no real measurement being available?

A. No. Staff's pre-filed direct recommended course of action remains the same. As an interim solution, Staff still recommends the proposed 2% methodology initially be adopted, as well as the other caveats and follow-up action addressed in Direct Testimony.

Q. Does this conclude your Corrected Direct Testimony?

A. Yes, it does.

Exhibit No.:	
Issues:	Class Cost of Service Miscellaneous Tariff Issues
Witness:	Tom Imhoff
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Direct Testimony
Case No.:	GR-2006-0387
Date Testimony Prepared:	September 26, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

TOM M. IMHOFF

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
September 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 Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF THOMAS M. IMHOFF

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Thomas M. Imhoff, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 9 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Thomas M. Imhoff

Subscribed and sworn to before me this 25th day of September, 2006.

Dawn L. Hake
Notary Public

DAWN L. HAKE
My Commission Expires
March 16, 2009
Cole County
Commission #05407643

My commission expires_____

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OF

TOM M. IMHOFF

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

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DIRECT TESTIMONY

OF

TOM M. IMHOFF

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name and business address.

A. Thomas M. Imhoff, P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am the Rate & Tariff Examination Supervisor in the Energy Department of the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I attended Southwest Missouri State University at Springfield, Missouri, from which I received a Bachelor of Science degree in Business Administration, with a major in Accounting, in May 1981. In May 1987, I successfully completed the Uniform Certified Public Accountant (CPA) examination and subsequently received the CPA certificate. I am currently licensed as a CPA in the State of Missouri.

Q. What has been the nature of your duties with the Commission?

A. From October 1981 to December 1997, I worked in the Accounting Department of the Commission, where my duties consisted of directing and assisting with various audits and examinations of the books and records of public utilities operating within the State of Missouri under the jurisdiction of the Commission. On January 5, 1998, I assumed the position of Regulatory Auditor IV in the Gas Tariffs/Rate Design Department, where my duties consist of analyzing applications, reviewing tariffs and making

recommendations based upon those evaluations. On August 9, 2001, I assumed my current position of Rate & Tariff Examination Supervisor in the Energy Tariffs/Rate Design Department, where my duties consist of directing Commission Staff within the Department, analyzing applications, reviewing tariffs, and making recommendations based upon my evaluations and the evaluations performed by Staff within the Department.

Q. Have you previously filed testimony before this Commission?

A. Yes. A list of cases in which I have filed testimony before this Commission is attached as Schedule 1 to my direct testimony.

Q. With reference to Case No. GR-2006-0387, have you made an examination and study of the material filed by Atmos Energy Corporation (Atmos or Company) relating to its proposed increase in gas rates?

A. Yes, I have.

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to present the Commission Staff's (Staff) position relating to class cost-of-service (CCOS) for Atmos, the consolidation of Atmos' tariffs and the Staff's position on consolidating the Purchased Gas Adjustment (PGA) filings for Atmos. The CCOS reflects the Staff's position on class cost responsibility and is described further in my testimony. The Consolidation of Tariffs reflects the need to consolidate duplicate tariff sheets. Atmos' current tariff reflects the combination of three different operating companies' set of tariffs. The current rate case is the correct avenue to consolidate these duplicate tariffs. Staff's proposal to reduce the number of Purchased Gas Adjustment (PGA) district rate filings reflects the consolidation of districts by pipeline.

Districts that are served by the same pipeline have similar transportation rates and gas supplies, therefore, Staff recommends the consolidation of the PGA districts by pipeline.

CLASS COST OF SERVICE

Q. What customer classes are used in Staff's CCOS studies?

A. The customer classes used in these studies are as follows:

Residential
Small General Service (SGS)
Large General Service (LGS)
Large Volume Service

Q. What is the purpose of Staff's CCOS?

A. The purpose of Staff's CCOS is to provide the Commission with a measure of relative class cost responsibility for the overall revenue requirements of Atmos. For individual items of cost, class cost responsibility can be either directly assigned or allocated to customer classes using reasonable methods for determining the class responsibility for that item of cost. The results are then summarized so that they can be compared to revenues being collected from each class on current rates. The difference between the class costs responsibility and the class revenues is the amount that class is either subsidizing (revenues greater than costs) the other classes are being subsidized (revenues less than costs).

Q. How were the usage levels and class peak demand levels used in your CCOS study developed?

A. The annualized usage levels and customer bill counts for the Residential and Small General Service sales classes were provided by Staff Auditing witness Greg Meyer and will be addressed in his direct testimony. The annual usage levels and customer bill counts for Large General Service and Large Volume customers were developed by Staff witness Anne Ross of the Energy department and will be addressed in her testimony. The class peak

demand levels were developed using the usage levels and bill counts discussed above together with the per customer peak demands developed by Staff witness Dan Beck of the Commissions Energy Department and the load factors developed by the Company for the large customers.

Q. What is the source of accounting information used in your CCOS studies?

A. The accounting information was developed using costs produced by the Commission Auditing Department, which is based on a test year ending September 30, 2005, updated for known and measurable changes through June 30, 2006. The Staff's Auditing Department has provided me an update to its filed case, so I used these updated filings in presenting my CCOS.

Q. Please describe how you categorized the individual items of cost in the Staff's CCOS studies.

A. First the costs are categorized into functional areas that are to be allocated in the same way. This is referred to as cost functionalization. The rate base and expense accounts are assigned to one of the following functional categories:

Transmission
Storage
Purchased Gas
Distribution Mains
Distribution Measuring and Regulating
Distribution Meters
Distribution Regulators
Distribution Services
Customer Service
Billing
Meter Reading
Revenue Related

Those costs, which cannot directly be assigned to any specific functional category, are divided among several functions based upon some relational factor. For example, it is reasonable to assume that property taxes are related to gross plant costs and can therefore be funtionalized in the same manner as gross plant costs.

Q. How were Transmission costs allocated?

A. Transmission costs were allocated using the Capacity Utilization allocator which was developed by Staff witness Daniel I. Beck.

Q. How were Storage costs allocated?

A. Storage is primarily used in winter months; therefore, storage costs were allocated to all sales customers (excluding transportation customers) using sales volumes from the months of November through March.

Q. How were Purchased Gas costs allocated?

A. Even though purchased gas costs are not part of this rate proceeding, there is a certain level of purchased gas costs included as a component of cash working capital. These costs were allocated between the CCOS classes using gas sales volumes.

Q. How were the costs of Distribution Mains allocated?

A. The allocation factor for Distribution Mains was developed by using the capacity utilization factor which is described in the testimony of Staff witness Daniel I. Beck.

Q. How were the costs of Distribution Meters and Distribution Regulators allocated?

A. The allocation factors for Distribution Meters and Distribution Regulators were developed by applying the cost estimates supplied to Staff from Atmos and sponsored by Staff witness Daniel I. Beck. The Residential class was used as the basis for computing

the weights for class cost responsibility. In other words, if it costs $50 for a Residential customer and $200 for a SGS Customer, the SGS customer would receive a weighting of four, while the Residential customer receives a weighting of one.

Q. How were the costs of Distribution Service Lines allocated?

A. These costs were developed by applying the cost estimates supplied to Staff from Atmos and sponsored by Staff witness Daniel I. Beck. Service line costs were allocated using the same methodology used for the Distribution Meters and Distribution Regulators.

Q. How were costs associated with Distribution Measuring and Regulating allocated?

A. This type of cost is associated with equipment used to measure and regulate natural gas before it reaches individual customers' service lines, so these costs were allocated using annualized Ccf volumes.

Q. How were Customer Service costs allocated?

A. These costs are associated with the number of customers being served; therefore, they were allocated using the number of annual bills for each customer class using the same weighting methodology as described above.

Q. How were the costs of the Customer Billing function allocated?

A. These costs were allocated by the number of annual bills together with the same weighting methodology as described above for each customer class.

Q. How were Meter Reading costs allocated?

A. These costs were allocated by using the weighted customer numbers. The weighted numbers used reflect Staff's methodology of calculating customer numbers.

Q. How were the Revenue Related costs allocated?

A. These costs were allocated using Staff's annualized margin revenues.

Q. What are the results of your CCOS studies?

A. The results for Atmos' Northeast District are shown on Schedule 2. The Northeast District consists of Atmos' previously separated Districts of Kirksville, Palmyra, Hannibal/Canton and Bowling Green. The results for Atmos' West Central District are shown on Schedule 3. The West Central District consists of Atmos' previously separated Districts of Butler and Greely. The results for Atmos' Southeast District are shown on Schedule 4. The Southeast District consists of Atmos' previously separated Districts of SEMO and Neelyville. All are presented in terms of class revenue requirements before any increase in the Company's respective revenue requirements by district.

Q. How have you compared the CCOS study results to current revenues?

A. Revenue requirement is a major component in this case and the Commission must have a recommendation about class revenue requirements that it can apply to any increase in revenue requirement that is ultimately decided. In order to make such a recommendation, I have factored the Staff's CCOS to be equal to the revenue level collected from current rates. The same factor was applied to the allocated costs for each class (i.e., each class' costs were decreased by an equal percentage). When subtracting the results from current revenues, a revenue deficiency (-) or revenue surplus (+) for each class is reflected.

Q. What is the impact of your CCOS study on the various customer classes?

A. The CCOS study shows that revenues should be collected differently than how revenues are collected under current rates. However, it should be noted that the miscellaneous revenues will include proposed changes in some of the miscellaneous charges

as described in the testimony of Staff witness Michael Ensrud of the Commission's Energy Tariffs/Rate Design Department.

CONSOLIDATION OF TARIFFS

Q. What is Staff proposal concerning the consolidation of Atmos' tariffs?

A. Staff recommends consolidating duplicate tariff sheets currently active throughout the tariff. A primary example of this would be the PGA tariff, whereby Atmos currently has six different areas in the tariff that state how the PGA is to be computed and accounted for.

Q. What tariff sheets do you recommend be consolidated into one set of tariff sheets for the PGA?

A. Schedule 5 lists the tariff sheets that are duplicative and need to be consolidated into one set of PGA tariff sheets.

CONSOLIDATION OF PGA DISTRICTS

Q. Does Staff recommend consolidating any of Atmos' PGA tariff rates?

A. Yes.

Q. What is Staff's proposal?

A. Staff recommends consolidating PGA rates by pipeline. Atmos currently files seven separate PGA rates when all districts are filed for PGA rate changes. Staff proposes to reduce this amount to four PGA rate districts. Staff recommends consolidating Atmos' PGA rate districts into the following districts:

1. Butler and Greeley
2. Hannibal/Canton, Bowling Green and Palmyra
3. Kirksville
4. SEMO and Neelyville

Q. Why is Staff recommending consolidation of PGA rate districts?

A. Staff recommends simplifying and improving the PGA/ACA rate process by making it more efficient by reducing the number of filings currently performed by Atmos. By identifying the PGA computation by pipeline, a reduction in the total number of PGA district rate changes will consolidate the districts with similar transportation rates and gas supplies into one district. This is consistent with how Union Electric Company d/b/a AmerenUE currently files its PGA rate filings.

Q. Does this conclude your direct testimony?

A. Yes it does.

ATMOS ENERGY CORPORATION
CASE NO. Gr-2006-0387

Summary of Cases in which prepared testimony was presented by:
THOMAS M. IMHOFF

Company Name	Case No.
Terre-Du-Lac Utilities	SR-82-69
Terre-Du-Lac Utilities	WR-82-70
Bowling Green Gas Company	GR-82-104
Atlas Mobilfone Inc.	TR-82-123
Missouri Edison Company	GR-82-197
Missouri Edison Company	ER-82-198
Great River Gas Company	GR-82-235
Citizens Electric Company	ER-83-61
General Telephone Company of the Midwest	TR-83-164
Missouri Telephone Company	TR-83-334
Mobilpage Inc.	TR-83-350
Union Electric Company	ER-84-168
Missouri-American Water Company	WR-85-16
Great River Gas Company	GR-85-136
Grand River Mutual Telephone Company	TR-85-242
ALLTEL Missouri, Inc.	TR-86-14
Continental Telephone Company	TR-86-55
General Telephone Company of the Midwest	TC-87-57
St. Joseph Light & Power Company	GR-88-115
St. Joseph Light & Power Company	HR-88-116
Camelot Utilities, Inc.	WA-89-1
GTE North Incorporated	TR-89-182
The Empire District Electric Company	ER-90-138
Capital Utilities, Inc.	SA-90-224
St. Joseph Light & Power Company	EA-90-252
Kansas City Power & Light Company	EA-90-252
Sho-Me Power Corporation	ER-91-298
St. Joseph Light & Power Company	EC-92-214
St. Joseph Light & Power Company	ER-93-41
St. Joseph Light & Power Company	GR-93-42
Citizens Telephone Company	TR-93-268
The Empire District Electric Company	ER-94-174
Missouri-American Water Company	WR-95-205
Missouri-American Water Company	SR-95-206
Union Electric Company	EM-96-149
The Empire District Electric Company	ER-97-81
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
Laclede Gas Company	GR-99-315
Atmos Energy Corporation	GM-2000-312
Ameren UE	GR-2000-512
Missouri Gas Energy	GR-2001-292
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GR-2001-629

Missouri Gas Energy	GT-2003-0033
Aquila Networks – L&P	GT-2003-0038
Aquila Networks – MPS	GT-2003-0039
Southern Missouri Gas Company, L.P.	GT-2003-0031
Fidelity Natural Gas, Inc.	GT-2003-0036
Atmos Energy Corporation	GT-2003-0037
Laclede Gas Company	GT-2003-0032
Union Electric Company d/b/a Ameren UE	GT-2003-0034
Laclede Gas Company	GT-2003-0117
Aquila Nerworks MPS & L&P	GR-2004-0072
Missouri Gas Energy	GR-2004-0209
Missouri Pipeline Company & Missouri Gas Company	GC-2006-0491

Atmos Energy Corporation, Northeast Rate District								
CASE NO. GR-2006-0387								
Test Year Ending September 30, 2005 Updated Through June 30, 2006								
						SMALL	LARGE	
						GENERAL	GENERAL	LARGE
				TOTAL	RESIDENTIAL	SERVICE	SERVICE	VOLUME
				-	-	-	-	-
RATE BASE	Schedule 2, Line 21		$23,661,754	$23,661,754	$15,300,536	$6,202,991	$842,474	$1,315,753
REQUESTED RETURN				$0	7.3000%	7.3000%	7.3000%	7.3000%
RETURN ON RATE BASE	Schedule 1, line 3			$1,727,308	$1,116,939	$452,818	$61,501	$96,050
O & M EXPENSES	Schedule 9, Line 23		$2,764,957	$2,764,957	$1,988,974	$593,611	$53,757	$128,614
DEPRECIATION EXPENSE	Schedule 9, Lines 25&26		$1,301,857	$1,301,857	$880,323	$318,138	$30,630	$72,766
TAXES OTHER THAN INCOM	Schedule 9, Line 27		$537,597	$537,597	$350,475	$135,274	$15,197	$36,652
INCOME TAXES	36+Schedule 1, Lines 8&9		$412,899	$412,899	$266,995	$108,242	$14,701	$22,960
TOTAL EXPENSES				$5,017,310	$3,486,767	$1,155,266	$114,286	$260,992
TOTAL C-O-S				$6,745,619	$4,603,706	$1,608,084	$175,787	$357,042
OTHER REVENUES				$76,044	$60,111	$13,778	$876	$1,780
REQUIRED MARGIN REVENUE				$6,669,575	$4,543,595	$1,594,306	$174,910	$355,263
CURRENT MARGIN REVENUES				$6,744,186	$4,297,368	$1,730,932	$242,111	$473,775
AVERAGE GAS REVENUES				$0	$0	$0	$0	$0
ZERO REVENUE INCREASE PLUG			-$76,112	$76,112	$51,862	$18,198	$1,996	$4,055
C-O-S MARGIN REVENUES @ 0%				$6,744,186	$4,595,457	$1,612,504	$176,907	$359,318
AVERAGE GAS COSTS				$0	$0	$0	$0	$0
REVENUE INCREASE AT				$0	$0	$0	$0	$0
REVENUE ABOVE (BELOW) COS				($0)	($298,089)	$118,428	$65,204	$114,457
% INCREASE WITHOUT GAS COSTS				-0.00%	6.94%	-6.84%	-26.93%	-24.16%
% INCREASE WITH GAS COSTS				0.00%	6.94%	-6.84%	-26.93%	0.00%
CLASS SHARE OF CURRENT REVENUES				100.00%	63.72%	25.67%	3.59%	7.02%

SCHEDULE 2

Atmos Energy Corporation - West Central Rate District						
CASE NO. GR-2006-0387						
Test Year Ending September 30, 2005 Updated Through June 30, 2006						
			TOTAL	RESIDENTIAL	SMALL GENERAL SERVICE	LARGE GENERAL SERVICE
				-	-	-
RATE BASE	chedule 2, Line 2	$4,395,594	$4,395,594	$3,200,925	$788,411	$406,258
REQUESTED RETURN			$0	7.3000%	7.3000%	7.3000%
RETURN ON RATE BASE	Schedule 1, line	$320,878	$320,878	$233,668	$57,554	$29,657
O & M EXPENSES	chedule 9, Line 2	$642,589	$642,589	$492,977	$121,974	$27,639
DEPRECIATION EXPENSE	edule 9, Lines 25	$127,499	$127,499	$92,894	$27,813	$6,792
TAXES OTHER THAN INCOM	chedule 9, Line 2	$97,350	$97,350	$69,841	$20,772	$6,737
INCOME TAXES	36+Schedule 1,	$103,900	$103,900	$75,661	$18,636	$9,603
TOTAL EXPENSES			$971,339	$731,373	$169,194	$50,771
TOTAL C-O-S			$1,292,217	$965,041	$246,748	$80,428
OTHER REVENUES			$7,779	$5,944	$1,420	$416
REQUIRED MARGIN REVENUE			$1,284,438	$959,097	$245,329	$80,012
CURRENT MARGIN REVENUES			$1,314,910	$848,483	$369,779	$96,648
AVERAGE GAS REVENUES			$0	$0	$0	$0
ZERO REVENUE INCREASE PLUG		-$30,472	$30,472	$22,754	$5,820	$1,898
C-O-S MARGIN REVENUES @ 0%			$1,314,910	$981,851	$251,149	$81,910
AVERAGE GAS COSTS			$0	$0	$0	$0
REVENUE INCREASE AT			$0	$0	$0	$0
REVENUE ABOVE (BELOW) COS			($0)	($133,368)	$118,630	$14,738
% INCREASE WITHOUT GAS COSTS			$0	15.72%	-32.08%	-15.25%
% INCREASE WITH GAS COSTS			$0	15.72%	-32.08%	-15.25%
CLASS SHARE OF CURRENT REVENUES			$1	64.53%	28.12%	7.35%

Schedule 3

Atmos Energy Corporation - Southeast Rate District							
CASE NO. GR-2006-0387							
Test Year Ending September 30, 2005 Updated Through June 30, 2006							
			TOTAL	RESIDENTIAL	SMALL GENERAL SERVICE	LARGE GENERAL SERVICE	LARGE VOLUME
			-	-	-	-	-
RATE BASE			$26,378,407	$17,342,933	$5,553,178	$598,526	$2,883,770
REQUESTED RETURN			$0	7.3000%	7.3000%	7.3000%	7.3000%
RETURN ON RATE BASE	Schedule 1, line	$1,925,623	$1,925,624	$1,266,034	$405,382	$43,692	$210,515
O & M EXPENSES	chedule 9, Line 2	$3,970,994	$3,970,995	$2,902,539	$695,076	$39,791	$333,588
DEPRECIATION EXPENSE	edule 9, Lines 25	$884,276	$884,275	$622,318	$169,019	$14,324	$78,615
TAXES OTHER THAN INCOM	chedule 9, Line 2	$603,601	$603,601	$396,685	$116,183	$10,085	$80,649
INCOME TAXES	36+Schedule 1,	$621,108	$621,107	$408,358	$130,755	$14,093	$67,901
TOTAL EXPENSES			$6,079,979	$4,329,900	$1,111,033	$78,293	$560,753
TOTAL C-O-S			$8,005,603	$5,595,934	$1,516,415	$121,985	$771,268
OTHER REVENUES			$63,877	$44,651	$12,099	$973	$6,153
REQUIRED MARGIN REVENUE			$7,941,726	$5,551,283	$1,504,316	$121,012	$765,115
CURRENT MARGIN REVENUES			$9,184,614	$5,228,476	$1,996,199	$247,643	$1,712,296
AVERAGE GAS REVENUES			$0	$0	$0	$0	$0
ZERO REVENUE INCREASE PLUG		-$1,242,889	$1,242,888	$868,782	$235,427	$18,938	$119,741
C-O-S MARGIN REVENUES @ 0%			$9,184,614	$6,420,065	$1,739,743	$139,950	$884,856
AVERAGE GAS COSTS			$0	$0	$0	$0	$0
REVENUE INCREASE AT			$0	$0	$0	$0	$0
REVENUE ABOVE (BELOW) COS			$0	($1,191,589)	$256,456	$107,693	$827,440
% INCREASE WITHOUT GAS COSTS			0.00%	22.79%	-12.85%	-43.49%	-48.32%
% INCREASE WITH GAS COSTS			0.00%	22.79%	-12.85%	-43.49%	0.00%
CLASS SHARE OF CURRENT REVENUES			100.00%	56.93%	21.73%	2.70%	18.64%

SCHEDULE 4

ATMOS ENERGY CORPORATION

P.S.C. MO. No. 1	SHEET NO. 24
P.S.C. MO. No. 1	SHEET NO. 25
P.S.C. MO. No. 1	SHEET NO. 26
P.S.C. MO. No. 1	SHEET NO. 27
P.S.C. MO. No. 1	SHEET NO. 28
P.S.C. MO. No. 1	SHEET NO. 29
P.S.C. MO. No. 1	SHEET NO. 30
P.S.C. MO. No. 1	SHEET NO. 31
P.S.C. MO. No. 1	SHEET NO. 32
P.S.C. MO. No. 1	SHEET NO. 33
P.S.C. MO. No. 1	SHEET NO. 34
P.S.C. MO. No. 1	SHEET NO. 35
P.S.C. MO. No. 1	SHEET NO. 36
P.S.C. MO. No. 1	SHEET NO. 42
P.S.C. MO. No. 1	SHEET NO. 43
P.S.C. MO. No. 1	SHEET NO. 44
P.S.C. MO. No. 1	SHEET NO. 45
P.S.C. MO. No. 1	SHEET NO. 46
P.S.C. MO. No. 1	SHEET NO. 47
P.S.C. MO. No. 1	SHEET NO. 48
P.S.C. MO. No. 1	SHEET NO. 49
P.S.C. MO. No. 1	SHEET NO. 68
P.S.C. MO. No. 1	SHEET NO. 69
P.S.C. MO. No. 1	SHEET NO. 70
P.S.C. MO. No. 1	SHEET NO. 71
P.S.C. MO. No. 1	SHEET NO. 72
P.S.C. MO. No. 1	SHEET NO. 73
P.S.C. MO. No. 1	SHEET NO. 74
P.S.C. MO. No. 1	SHEET NO. 75
P.S.C. MO. No. 1	SHEET NO. 76
P.S.C. MO. No. 1	SHEET NO. 77
P.S.C. MO. No. 1	SHEET NO. 78
P.S.C. MO. No. 1	SHEET NO. 79
P.S.C. MO. No. 1	SHEET NO. 80
P.S.C. MO. No. 1	SHEET NO. 81
P.S.C. MO. No. 1	SHEET NO. 104
P.S.C. MO. No. 1	SHEET NO. 105
P.S.C. MO. No. 1	SHEET NO. 106
P.S.C. MO. No. 1	SHEET NO. 107
P.S.C. MO. No. 1	SHEET NO. 108
P.S.C. MO. No. 1	SHEET NO. 109
P.S.C. MO. No. 1	SHEET NO. 110
P.S.C. MO. No. 1	SHEET NO. 111

P.S.C. MO. No. 1	SHEET NO. 112
P.S.C. MO. No. 1	SHEET NO. 113
P.S.C. MO. No. 1	SHEET NO. 136
P.S.C. MO. No. 1	SHEET NO. 137
P.S.C. MO. No. 1	SHEET NO. 138
P.S.C. MO. No. 1	SHEET NO. 139
P.S.C. MO. No. 1	SHEET NO. 140
P.S.C. MO. No. 1	SHEET NO. 141
P.S.C. MO. No. 1	SHEET NO. 142
P.S.C. MO. No. 1	SHEET NO. 143
P.S.C. MO. No. 1	SHEET NO. 144
P.S.C. MO. No. 1	SHEET NO. 145
P.S.C. MO. No. 1	SHEET NO. 146
P.S.C. MO. No. 1	SHEET NO. 147
P.S.C. MO. No. 1	SHEET NO. 148
P.S.C. MO. No. 1	SHEET NO. 149
P.S.C. MO. No. 1	SHEET NO. 179
P.S.C. MO. No. 1	SHEET NO. 180
P.S.C. MO. No. 1	SHEET NO. 181
P.S.C. MO. No. 1	SHEET NO. 182
P.S.C. MO. No. 1	SHEET NO. 183
P.S.C. MO. No. 1	SHEET NO. 184
P.S.C. MO. No. 1	SHEET NO. 185
P.S.C. MO. No. 1	SHEET NO. 186
P.S.C. MO. No. 1	SHEET NO. 187
P.S.C. MO. No. 1	SHEET NO. 188

Exhibit No.:	
Issues:	Class Cost of Service
Witness:	Thomas M. Imhoff
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Rebuttal Testimony
Case No.:	GR-2006-0387
Date Testimony Prepared:	October 31, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

THOMAS M. IMHOFF

ATOMS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
October 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 Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF THOMAS M. IMHOFF

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Thomas M. Imhoff, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 3 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Thomas M. Imhoff

Subscribed and sworn to before me this 30th day of October, 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer
Notary Public

My commission expires 9-21-10

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OF

THOMAS M. IMHOFF

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

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REBUTTAL TESTIMONY

OF

THOMAS M. IMHOFF

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name and business address.

A. Thomas M. Imhoff, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Thomas M. Imhoff who filed direct testimony in this case?

A. Yes I am.

EXECUTIVE SUMMARY

Q. What is the nature of your Rebuttal Testimony as it relates to this case?

A. My Rebuttal Testimony will address certain aspects of Atmos Energy Inc. (Atmos or Company) witness Gary L. Smith's Direct Testimony on the "Weather Normalization Adjustment" Clause, and Atmos witness Pat Childers on the Purchased Gas Adjustment (PGA) consolidation. I will also address the Class Cost of Service Study (CCOS) direct testimonies of Barbara Meisenheimer of the Office of the Public Counsel (OPC) and Don Johnstone of Noranda. I will also address the confidential tariff rate proposal of Noranda witness Johnstone.

WEATHER NORMALIZATION ADJUSTMENT

Q. Have you reviewed the WNA proposal filed by Company witness Smith?

A. Yes I have.

Q. Do you agree with Atmos' proposal?

A. No. Staff disagrees with this proposal. Atmos' proposal changes the rate to be charged to the customer when the weather varies from normal. This proposal attempts to implement Senate Bill 179 (SB179) legislation that was passed by the legislature during the 2005 legislative session. There are no rules currently in effect to implement a weather adjustment clause as defined in SB179. Rules need to be in place before a weather adjustment clause can even be contemplated. Staff notes that the amount by which Atmos' proposed WNA adjusts the margin rate it would charge a customer is not specified in the tariff. Staff witness Anne Ross' proposed rate design would be the more appropriate method to address the weather portion more than a WNA.

PGA DISTRICT CONSOLIDATION

Q. What is Staff's position relating to the Purchased Gas Adjustment (PGA) district consolidation?

A. Staff's pre-filed direct position to consolidate the PGA districts into four is the appropriate method to adopt. Atmos' proposal of one state-wide PGA rate is not appropriate. The Staff's proposal takes the transportation, gas supply basin and pipelines into account and is more reflective of the PGA costs for each of the four proposed districts.

CLASS COST OF SERVICE

Q. Does Staff have concerns relating to Noranda's filed CCOS?

A. Yes. Staff believes that Noranda witness Don Johnstone's CCOS is irrelevant and should not be considered. The CCOS filed utilizes stale data that is ten years old. The CCOS was filed when a different company owned the properties. Associated Natural Gas Company (ANG) had ownership of the properties at the time this CCOS was performed.

Atmos is a completely different company from ANG, and the use of current cost and revenue data should be used when conducting a CCOS.

Q. Does Staff have any comments regarding the direct testimony of OPC witness Barbara Meisenheimer?

A. Yes. Over half of the difference between Staff's CCOS and OPC witness Meisenheimer's CCOS is related to the mains allocator. However, since the rebuttal testimony of Staff witness Steve Rackers indicates that a zero increase in revenue requirement is appropriate, I recommend that there be no shifts between classes in this case as proposed by Atmos.

Q. Are there other reasons for no shifts between the rate classes?

A. Yes. The proposed consolidation of districts and rate design changes would have rate impacts within the classes even without shifts in class revenue responsibilities. The additional rate shifts between the classes would result in further impacts, and therefore, a zero increase in revenue requirement would support no class revenue shifts.

NORANDA'S CONFIDENTIAL RATE SCHEDULE PROPOSAL

Q. Does Staff agree with Noranda witness Johnstone's proposal to establish a confidential rate schedule for Noranda?

A. No. Staff does not support a confidential rate schedule. Given the zero revenue increase as described in Staff witness Steve Rackers' rebuttal testimony, the Large Volume Service/ Flexible Rates for Large Volume Transportation customers should remain the same.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.

Exhibit No.:
Issues: Class Cost of Service

Witness: Thomas M. Imhoff
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GR-2006-0387
Date Testimony Prepared: November 13, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

THOMAS M. IMHOFF

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Jefferson City, Missouri
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 Rate Increase for Natural Gas Service in the Missouri Service Area of the Company.	))))))	Case No. GR-2006-0387

AFFIDAVIT OF THOMAS M. IMHOFF

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Thomas M. Imhoff, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 5 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Thomas M. Imhoff

Subscribed and sworn to before me this 9th day of November, 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer
Notary Public

My commission expires 9-21-10

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OF

THOMAS M. IMHOFF

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

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CCOS STUDY 2

SURREBUTTAL TESTIMONY

OF

THOMAS M. IMHOFF

ATMOS ENERGY CORPORATION

CASE NO. GR-2006-0387

Q. Please state your name and business address.

A. Thomas M. Imhoff, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Thomas M. Imhoff who filed direct and rebuttal testimony in this case?

A. Yes, I am.

Q. What is the nature of your Surrebuttal Testimony?

A. My Surrebuttal Testimony addresses the Office of the Public Counsel (OPC) witness Barbara A. Meisenheimer's rebuttal testimony concerning the Purchased Gas Adjustment (PGA) rate district consolidation and Noranda witness Donald Johnstone concerning Class Cost of Service (CCOS) Study.

PGA RATE CONSOLIDATION

Q. What is your observation of OPC witness Meisenheimer's estimate of Neelyville's PGA rate in comparison to the SEMO district's PGA rate?

A. OPC witness Meisenheimer did not take into consideration the new PGA rates recently approved by the Commission. The current cost of gas for Neelyville is $1.0124 per one hundred cubic feet (Ccf) while SEMO's is $1.011 per Ccf. This represents a net difference of $0.0014 per Ccf difference. The current cost of gas for the Butler district is $0.8788 per Ccf while the Greeley district is $0.8479 per Ccf. This represents a net

difference of $0.0309 per Ccf difference. Staff's proposal simplifies and improves the PGA rate process. Staff's proposed consolidation reflects similar transportation rates and/or gas supplies into one district.

Q. Do you agree with OPC witness Meisenheimer's assessment that the "rates vary significantly?

A. No. As Staff has previously stated, the maximum rate differential between the various proposed PGA rate district consolidations would be the West Central district of $0.0309 per Ccf. These changes will have an insignificant affect on a customer's bill.

CCOS STUDY

Q. Have you reviewed the testimony of Noranda witness Donald Johnstone?

A. Yes.

Q. On page 3, lines 8-10 of Mr. Johnstone's Rebuttal Testimony it states: "If an overall revenue increase were to be the result it would appear that the status quo need not change for Noranda." Do you agree with this statement?

A. Yes. Clearly, a review of the Rebuttal Testimony of both the Staff and Atmos show support for a zero overall revenue increase and no change in the revenue responsibility of each class. Therefore, Noranda's statement "that status quo need not change for Noranda" is a true statement.

Q. Starting on page 4, line 1 and continuing to page 8, line 7, Mr. Johnstone's Rebuttal testimony discusses the CCOS Study of the OPC. Do you believe this discussion is relevant given a overall zero revenue increase and no change in the revenue responsibility of each class?

A. No. Given an overall zero revenue increase and no change in the revenue responsibility of each class, in my opinion, debating the specifics of a CCOS study is moot. The purpose of developing a CCOS study is to provide a starting point for determining issues like revenue responsibility of each class. Once this starting point is determined, other issues like rate impacts need to be considered to determine the revenue responsibility of each class. In this case, the agreement that the revenue responsibility of each class should not change makes a debate about the appropriate CCOS study an academic exercise that has no real value.

Q. Starting on page 8, line 8 and ending on page 11, line 4, Mr. Johnstone discusses what he perceives to be the Staff's proposal that the interruptible rates be changed, including the Large Volume Service rate. Do you agree that Staff is proposing to change these rates?

A. Staff is not proposing that rates such as the Large Volume Rate Schedule be abolished. Instead, Staff is proposing that the Large Volume Rate Schedule for the SEMO district remain unchanged. This is a rate that only one customer currently qualifies for, Noranda, and that customer is not served by this rate but is instead served by a special contract. Since no customer currently takes advantage of the Large Volume Service rate for the SEMO district, leaving the rate unchanged is only logical. Rates are typically set based on the customers that are currently using that rate. Attempting to design a rate for a customer that is served by a special contract that doesn't expire until January 1, 2014 is not logical.

Q. On page 11, line 5 through page 12, line 10, Mr. Johnstone discusses changes he made to Staff's CCOS study. How would you characterize Mr. Johnstone's adjustments?

A. After reading this portion of his testimony, I reviewed the workpapers associated with Mr. Johnstone's Rebuttal testimony. I would characterize Mr. Johnstone's modifications in two parts: a) he used annual volumes to allocate transmission mains and b) he used annual volumes to allocate distribution mains but he assumed that the volumes for the Large Volume class are zero. Regarding the first adjustment, Staff does not advocate using volumes to allocate transmission mains and therefore I cannot support this adjustment. It appears Mr. Johnstone doesn't advocate using this allocator for transmission mains either when he states on page 11, line 19 through page 12, line 2: "One caveat is that the cost to Noranda will be overstated because a customer component of the mains is not incorporated and because my use of annual volumes for the allocation of the cost of transmission mains."

Regarding the second adjustment, Staff does not advocate using this Allocator for distribution mains. In addition, the assumption that volumes for the Large Volume class are zero is unreasonable and is not supported by Mr. Johnstone's own testimony. First, this class is made up of customers that are both firm and interruptible. To assume that all of the firm customers, with the exception of the ones in the LV class, would be allocated distribution mains costs is illogical. In addition, Mr. Johnstone recognizes that interruptible customers should pay some distribution mains costs when he states on page 5, lines 7-9 that "as a practical matter customers receiving the interruptible service should, nevertheless, make some contribution to the cost of the facilities used." Interestingly, Mr. Johnstone's modifications to OPC's CCOS study allocated distribution mains costs to all of the customers that make up Staff's Large Volume class with the exception of Noranda. By assuming the allocation to the Large Volume class is zero for transmission mains, Mr. Johnstone contradicted his own statement that some contribution should be made by customers using

the facilities and he contradicted the revisions that he made to OPC's CCOS study. Based on the issues I have raised regarding Mr. Johnstone's revisions to the Staff CCOS study for the SEMO district, I recommend that the revised study be ignored.

Q. Are there any other issues raised by Mr. Johnstone that you would like to address?

A. Yes. On page 5, lines 12-16, Mr. Johnstone states, "In 2006 there were two unusual near misses related to a tornado and a digging caused rupture. Consequently, Noranda has good reason to expect no more that interruptible service and continues to maintain a propane system as a backup." Staff is perplexed by these two examples. Instead of characterizing these two examples as interruptions, the Staff characterizes these as disruptions of service that could and do happen to both firm and interruptible customers. In Contract, the Staff characterizes interruptions as situations where the capacity on Atmos's system is inadequate to supply gas to all of Noranda's customers. Therefore, Atmos would request that interruptible customers such as Noranda would curtail their loads so that firm customers could continue to receive gas. Atmos's response to Staff's last Data Request 109 indicates that one interruption did occur in the SEMO district in the last 5 years but that was in 2003 in Charleston, Missouri, which is located approximately 30 miles from Noranda, Noranda was not one of the customers interrupted. Since Staff has no knowledge of the alleged interruptions in 1996 or 2001 and given the unique definition of interruptions that Noranda seems to advocate, the Staff continues to believe that the response to DR 109 is accurate.

Q. Does this conclude your surrebuttal testimony?

A. Yes it does.

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 Rate Increase for Natural Gas Service in the Missouri Service Area of The Company.	))))))	Case No. GR-2006-0387

Affidavit of Donald Johnstone

State of Missouri)
) ss
County of Miller)

Donald Johnstone, of lawful age, on his oath states: that he has reviewed the attached written testimony in question and answer form, all to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.

Donald Johnstone

Subscribed and sworn before me this 26th day of September, 2006

Notary Public

SEAL]

DENISE BAKER
Notary Public - Notary Seal
STATE OF MISSOURI
Miller County
My Commission Expires: June 17, 2007

My Commission expires: 6-17-07

Noranda Exhibit No. 400
Date 11-30-06 Case No. GR-2006-0387
Reporter PF

Madrid, Missouri, to recommend that the Gas Transportation Agreement between Atmos and Noranda (the "Agreement") be honored, and to recommend the Agreement be adopted as a rate schedule.

The Noranda facility that receives service from Atmos is described in the testimony of Mr. George Swogger that is also being filed on the date. Like Mr. Swogger, I will refer to the facility as the "Smelter."

Q WHAT SERVICE DOES ATMOS PROVIDE TO THE SMELTER?

A Atmos provides interruptible transportation service. This service consists of accepting delivery of natural gas owned by Noranda from an interstate pipeline and delivering the natural gas to Noranda. However, Atmos does not have sufficient capacity to enable it to deliver natural gas to the Smelter during periods of high system demand. Consequently, the transportation service is interruptible. Noranda maintains a propane system to use when natural gas is unavailable. But natural gas is the preferred fuel and it is used when it is available.

Q DOES THE SMELTER USE LARGE QUANTITIES OF NATURAL GAS?

A Yes. Historically the Smelter has been the largest customer of Atmos and its predecessor, Associated Natural Gas Company ("ANG"). Prior to the Agreement Noranda was the only customer receiving service under the large volume rate schedule.

investigate the possibility that the service to Noranda utilized only transmission facilities and did not utilize distribution facilities such as distribution lines, regulators and service lines. In fact, that was the finding and it was confirmed by ANG.

Q IS IT IMPORTANT TO DETERMINE WHICH FACILITIES ARE USED TO PROVIDE SERVICE?

A Yes. In order to correctly determine the cost of providing any service the first step is to define the service and to identify the facilities used to provide the service. For a large customer like the Smelter it is not unusual to find that the myriad facilities that are needed to provide service to the multitude of smaller customers are simply unneeded and not used in providing the large volume service.

For example, the Smelter is connected to an 8 inch transmission line. It is probably obvious, but to illustrate the point I will discuss service lines in contrast to the transmission line. The many service lines, that are typically less than 1 inch in diameter for the smaller customers, could not possibly be used in providing service to Noranda. There is no physical proximity, no physical path for the gas, and no way to move the quantities of gas needed by the Smelter though such small pipes. This same situation extends to the distribution lines that are not used in providing service to the Smelter.

transmission facilities the depreciation rate is 2.43%. Unfortunately, over the years Noranda has provided revenues far in excess of cost and it has been very difficult to resolve the problem.

Q DO THESE FIGURES ILLUSTRATE WHY NORANDA WOULD CONSIDER A BYPASS OF ANG OR ATMOS?

A At a very rough level these figures illustrate the low cost of the facilities necessary to move natural gas from a pipeline to Noranda. They also illustrate on the same very rough level how easy it would be for Atmos to compete with a bypass in an economic sense. I must point out, however, that I was not the consultant used by Noranda in the context of the bypass and the negotiation of the current contract. Consequently, I have no knowledge of the costs actually considered by Atmos or Noranda.

Instead, what I am here to address is the work that went into properly identifying the ANG/Atmos costs incurred to serve the Smelter. The lack of any progress towards an equitable cost-based rate before the Commission was a cause of serious concern for Noranda that gave rise to the appeals of the Commission decision and later the Agreement between Noranda and Atmos. The Agreement allowed the case to finally be dismissed as moot in January of 2003, six years after it started.

development of a rate, I am advised by my client, Mr. Swogger, that Noranda fully intends to honor its commitments under the Agreement between Noranda and Atmos. Noranda expects the same from Atmos and is hopeful that the possibilities of relitigating the Noranda rate/Agreement will be minimized. The contract has a ten year term that began January 1, 2003. Thus the parties are in the fourth year of the Agreement and six years remain.

Q SHOULD THE COMMISSION TAKE ANY ACTION WITH RESPECT TO THE CONTRACT?

A I recommend that it be adopted as a confidential rate schedule and made a part of the Atmos tariff.

Q WOULD THAT MAKE IT SUBJECT TO CHANGE BY THE COMMISSION?

A While I am not an attorney, it is my understanding that rates for regulated service are subject to review and change pursuant to a proper order of the Commission.

On the other hand, the contract prices for the remaining six years of the agreement are defined and set at a level that is substantially above the current 6.1 cent per MCF estimated cost to serve the Smelter. Inasmuch as Noranda and Atmos are both satisfied with the Agreement I believe it is appropriate to allow it to stand and be made a rate schedule. All of the other customers will

1 Q **DOES THIS CONCLUDE YOUR TESTIMONY?**

2 A Yes it does.

demand and net output forecasts and load behavior studies which included such factors as weather, conservation and seasonality. I also analyzed the cost of replacement energy associated with forced outages of generation facilities. In the Corporate Planning Function, my assignments included developmental work on a generation expansion planning program and work on the peak demand and sales forecasts. From 1977 through 1981, I was Supervisor of the Load Forecasting Group where my responsibilities included the Company's sales and peak demand forecasts and the weather normalization of sales.

In 1981, I began consulting, and in 2000, I created the firm Competitive Energy Dynamics, L.L.C. As a part of my twenty-four years of consulting practice, I have participated in the analysis of various electric, gas, water, and sewer utility matters, including the analysis and preparation of cost-of-service studies and rate analyses. In addition to general rate cases, I have participated in electric fuel and gas cost reviews and planning proceedings, policy proceedings, market price surveys, generation capacity evaluations, and assorted matters related to the restructuring of the electric and gas industries. I have also assisted companies in the negotiation of power contracts representing over $1 billion of electricity.

I have testified before the state regulatory commissions of Delaware, Hawaii, Illinois, Iowa, Kansas, Massachusetts, Missouri, Montana, New Hampshire, Ohio, Pennsylvania, Tennessee, Virginia and West Virginia, and the Rate Commission of the Metropolitan St. Louis Sewer District.

Exhibit No.: _____
Issues: Class Cost of Service/Rate Design
Witness: John W. Mallinckrodt
Type of Exhibit: Direct Testimony
Sponsoring Party: Noranda Aluminum, Inc.
Company: Associated Natural Gas Company
Case No.: GR-97-272

Before the
Missouri Public Service Commission

In the Matter of Associated Natural Gas Company's Tariff Revised Designed to Increase Rates for Gas Service to Customers in the Missouri Service Area of the Company	))))))	Case No. GR-97-272

Testimony and Schedules of

John W. Mallinckrodt

On Behalf of

Noranda Aluminum, Inc.

July 1997
Project 6707

Brubaker & Associates, Inc.
St. Louis, MO 63141-2000

Before the
Missouri Public Service Commission

In the Matter of Associated Natural Gas Company's Tariff Revised Designed to Increase Rates for Gas Service to Customers in the Missouri Service Area of the Company	)	**Case No. GR-97-272**

Direct Testimony of John W. Mallinckrodt

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A John W. Mallinckrodt, 1215 Fern Ridge Parkway, Suite 208; St. Louis, Missouri 63141-2000.

Q PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A This is set forth in Schedule A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of Noranda Aluminum, Inc.

Q ON WHAT SUBJECTS HAVE YOU BEEN ASKED TO TESTIFY?

A I have been asked to testify in regard to cost as the appropriate basis for establishing class revenue requirements and the design of the large industrial interruptible rates.

customers receive a balanced price signal against which to make their consumption decisions. If rates are not based on costs, then the choices can be distorted.

In terms of engineering efficiency, when rates are designed so that demand, customer and commodity costs are properly reflected in the rate structure, customers are provided with the proper incentive to minimize their costs, which will in turn minimize the costs to the utility.

With respect to equity, when rates are based on costs, each customer pays what it costs the utility to serve him, no more and no less. To the extent rates are not based on costs, some customers are required to pay part of the costs associated with service supplied to other customers, which clearly violates the principle of equity.

Also, to the extent that rates do not reflect costs, multi-plant firms will be encouraged to shift production from high energy cost plants to lower energy cost plants in order to remain competitive. Such a shifting of production would reduce employment and the overall contribution of the manufacturing concern to the state and local economies. This would require that the rates to the remaining customers be increased if ANG's fixed cost coverage were to be maintained, which, in turn, would be self-defeating to the presumed beneficiaries of below-cost rates. To the extent that industrial customers are intentionally overcharged in an attempt to extract from them a higher contribution to fixed costs, the potential for load loss is greatly increased.

Customer Class Characteristics

Q DO THE CUSTOMER CLASSES HAVE DIFFERENT CHARACTERISTICS WHICH LEAD TO DIFFERENT COST RESPONSIBILITIES?

A Yes, they do. Two class characteristics that I have examined for the Southeast Missouri Division (SEMO) of ANG are load factor and average monthly use per customer.

Q **DO THESE CUSTOMER CLASS CHARACTERISTICS HAVE AN IMPACT ON THE AVERAGE COST TO SERVE THE CUSTOMER CLASSES?**

A Yes. A high load factor indicates that the customer's use of utility facilities is quite efficient. The result is that the fixed cost associated with the facilities to serve a high load factor customer is spread over a relatively large amount of consumption, and therefore the per unit cost is significantly less than for low load factor customers. Of course, when a customer not only has a high load factor but is also interruptible, efficiency is further increased as the utility is not required to make investments that would be needed to serve the interruptible customer at the time of the system peak.

A high average use per customer also is an indication of a lower average cost. This occurs because customer-related costs, such as meters, services and billing, are spread over many more units of consumption with the result being a much lower unit cost.

ANG Class Cost of Service

Q **HAS ANG PREPARED A CLASS COST OF SERVICE STUDY?**

A Yes. ANG has prepared a study based on the test year ended July 31, 1996. The study develops the cost to serve customers under the Company's existing rate schedules.

Q **HAS ANG ALSO PREPARED AN ADJUSTED CLASS COST OF SERVICE STUDY?**

A Yes. ANG in response to Noranda's First and Second Set of Data Requests has provided corrections and changes in its class cost of service study. ANG submitted in response to Data Request No. 7 of Noranda's Second Set of Requests, revised Schedules H-1-a, H-1-b and H-1-c for SEMO. These revised schedules were utilized to prepare the comparisons shown in the following schedules and to prepare the Noranda recommended cost of service study.

Company Proposed Increase

Q WHAT INCREASE HAS BEEN PROPOSED BY THE COMPANY IN THE ADJUSTED STUDY AND HOW HAS THE INCREASE IN REVENUES BEEN SPREAD AMONG THE CUSTOMER CLASSES?

A ANG has proposed an overall increase of approximately $3.1 million for the SEMO Division. In partial recognition of the current variation from cost as shown by its class cost of service study, ANG has proposed a rate reduction for the interruptible customers and the industrial firm customers. The increase is spread among the other rate schedules as set forth on Schedule 4. The rate reduction for the interruptible customers and the industrial firm customers is also set forth on Schedule 4.

Q WHAT IMPACT DOES THE PROPOSED RATE INCREASE HAVE ON THE ANG'S SEMO DIVISION CLASS COST OF SERVICE RESULTS?

A Since there is a proposed decrease in the industrial firm, the commercial interruptible and the small and large industrial interruptible revenues to cost of service, the rate of return is 8.69% under the Company's study for all classes. Since the total SEMO average return also increases to 8.69% according to the ANG proposal, the index of return for all classes is 100. The results of the adjusted ANG study under proposed rates are summarized on Schedule 5.

Under the Company study and the proposed rate level, the revenues collected from Noranda annually are at the cost of service as defined in the study submitted with ANG's direct testimony. It is very appropriate for Associated to propose rates that recover the cost of service. However, ANG's study overstates the cost to serve Noranda since the study does not properly reflect interruptibility, includes the allocation of distribution costs to the industrial large interruptible class (Noranda) and an allocation of take or pay

Q **HAVE YOU MADE ADJUSTMENTS TO THE CLASS COST OF SERVICE STUDY THAT FULLY REFLECT THE REMOVAL OF DISTRIBUTION COST AND TAKE OR PAY COST?**

A Yes. From the stand point of cost-causation, it is necessary to recognize that ANG provides only transportation service to the industrial large interruptible class utilizing only its transmission system (the distribution system is not used to serve Noranda) and that take or pay cost which relate to providing of sales gas should not be allocated to transportation customers. Hence, from an appropriate cost-causation point of view, these costs should not be allocated to the industrial large interruptible customer.

Q **HAVE YOU PREPARED A CLASS COST OF SERVICE STUDY WHICH FULLY RECOGNIZES THE REMOVAL OF DISTRIBUTION COST AND OF TAKE OR PAY IN REGARD TO COST-CAUSATION?**

A Yes, I have. As compared to the Company's studies, this study also removes the distribution costs and the take or pay costs allocated to the industrial large interruptible service.

Q **WHAT IS THE RELATIVE RATE OF RETURN FOR CUSTOMERS UNDER PRESENT RATES WHEN THE FULL EFFECT OF REMOVAL OF DISTRIBUTION COST AND OF TAKE OR PAY IS RECOGNIZED IN THE CLASS COST OF SERVICE STUDY?**

A Under present rates industrial interruptible customers provide relative rates of return that range from 3375 to 6750. The rates of return for the customer classes and the variation from cost under present rates are summarized on Schedules 8-1 and 8-2.

Q WHY DO YOU RECOMMEND THESE CHARGES BE REMOVED?

A These charges appear to be in the nature of gathering which has been deregulated by the Federal Energy Regulatory Commission (FERC) or transmission that would more appropriately be a part of the delivered gas cost. I find no testimony from the Company that would support the proposition that this is an appropriate service to be regulated by the Missouri Commission.

Q HAVE YOU MADE ADJUSTMENTS TO THE CLASS COST OF SERVICE STUDY THAT FULLY REFLECT THE INTERRUPTIBLE NATURE OF INTERRUPTIBLE CLASS LOADS?

A No. From the stand point of cost-causation, it is necessary to recognize that ANG incurs production and transmission costs to provide firm service and that no additional costs are incurred to provide interruptible service. Hence, from a strict cost-causation point of view, the allocation of these costs to the interruptible customers should be zero. As compared to the Company's study, the transmission cost allocation factor for interruptible customers normally should be reduced to zero to reflect the fact that no peak capacity costs are incurred for these customers. In addition, the production cost allocation factor for Noranda has been reduced to zero by ANG in its studies as Noranda only purchases transportation service from ANG.

However, in this particular proceeding, the adjustment to fully reflect the interruptible nature of the interruptible class was not done. The impact is partially recognized by the Company's use of Average and Peak. Noranda does not object to this allocation factor for allocating cost in this particular case.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes, it does.

I joined the firm of Drazen-Brubaker & Associates, Inc. (DBA) in June of 1991. In April 1995 the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and staff. Since 1991 I have been engaged in the preparation of studies relating to utility rate matters and have participated in interstate pipeline, intrastate pipeline, oil pipeline, gas distribution and electric rate cases.

Q HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION OR A PUBLIC AUTHORITY?

A I have submitted testimony and appeared before the Federal Energy Regulatory Commission, the Delaware Public Service Commission, the Iowa Utilities Board and the Public Utility Commission of Texas. In addition, I have submitted testimony in cases before the Illinois Commerce Commission, the Louisiana Public Service Commission, and the Missouri Public Service Commission.

Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?

A I am a registered professional engineer in the State of Illinois.

ASSOCIATED NATURAL GAS COMPANY
SOUTHEAST MISSOURI DIVISION

Average Monthly Usage per Customer
Test Year Ended July 31, 1996

Line	Customer Class	Annual Sales (Mcf) (1)	Average Number of Customers (2)	Average Monthly Use per Customer (Mcf) (3)
1	Residential	2,577,761	32,929	7
2	Commercial Firm	1,054,353	4,283	21
3	Industrial Firm	24,843	4	518
4	Commercial Interruptible	114,665	25	387
5	Industrial Small Interruptible	1,112,389	48	1,952
6	Industrial Large Interruptible	1,263,580	1	105,298
7	Total	6,147,591	37,289	108,182

Schedule 2

ASSOCIATED NATURAL GAS COMPANY
SOUTHEAST MISSOURI DIVISION

Results of Adjusted Company Class Cost-of-Service Study
Variation from Cost of Service
Under Present Rates
Compared to Current Revenue
Test Year Ended July 31, 1996

Line	Customer Class	Current Rate Revenue (1)	Variation From Cost (2)	Percent Variation From Cost (3)
1	Residential	$17,000,609	($1,649,646)	-9.70%
2	Commercial Firm	6,498,418	149,320	2.30%
3	Industrial Firm	139,183	10,510	7.55%
4	Commercial Interruptible	540,082	89,848	16.64%
5	Industrial Small Interruptible	2,569,776	943,745	36.72%
6	Industrial Large Interruptible	576,458	456,223	79.14%
7	Total	$27,324,526	($0)	0.00%

Schedule 3-2

ASSOCIATED NATURAL GAS COMPANY
SOUTHEAST MISSOURI DIVISION

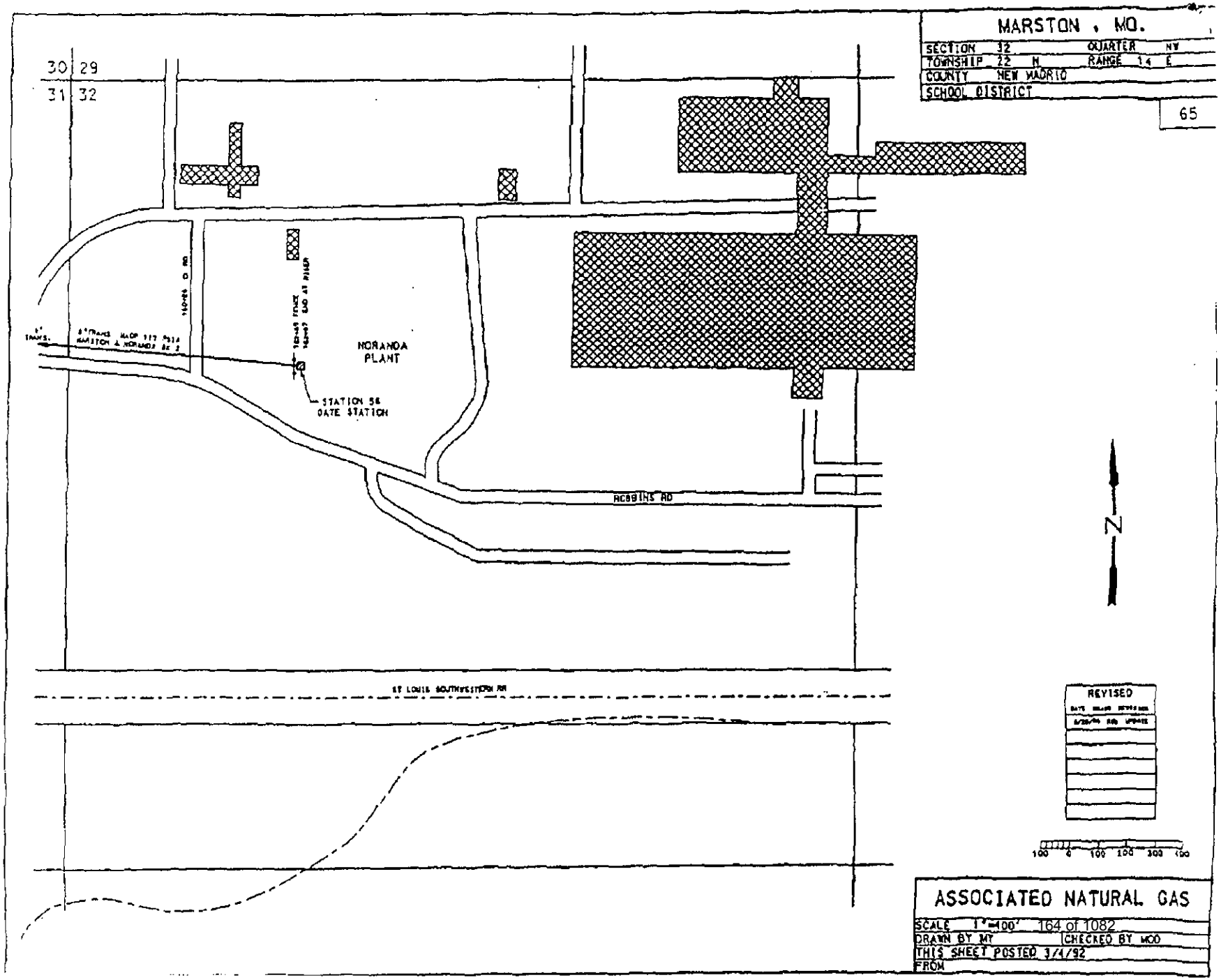
Results of Adjusted Company Class Cost-of-Service Study
Rate Base, Operating Income, Rate of Return
and Index of Return Under Proposed Rates
Test Year Ended July 31, 1996

Line	Customer Class	Rate Base (1)	Operating Income (2)	Rate of Return (3)	Index of Return (4)
1	Residential	$19,606,493	$1,703,804	8.69%	100
2	Commercial Firm	5,193,621	451,326	8.69%	100
3	Industrial Firm	63,143	5,487	8.69%	100
4	Commercial Interruptible	191,983	16,683	8.69%	100
5	Industrial Small Interruptible	1,142,195	99,257	8.69%	100
6	Industrial Large Interruptible	774,868	67,336	8.69%	100
7	Total	$26,972,303	$2,343,893	8.69%	100

Schedule 5

of 4 CSR 240.030, it is stated:

> Distribution line means a pipeline other than a gathering or transmission line.


MARSTON , MO.
SECTION 32 QUARTER NW
TOWNSHIP 22 N RANGE 14 E
COUNTY NEW MADRID
SCHOOL DISTRICT
65
30 29
31 32
NORANDA PLANT
STATION 56
GATE STATION
ROBBINS RD
N
REVISED
ASSOCIATED NATURAL GAS
SCALE 1"=400'
DRAWN BY MY
CHECKED BY MOD
THIS SHEET POSTED 3/1/92
FROM

Schedule 6-4

ASSOCIATED NATURAL GAS COMPANY
SOUTHEAST MISSOURI DIVISION

Noranda Recommended Class Cost-of-Service Study
under Present Rates
Rate Base, Operating Income, Rate of Return
and Index of Return
Test Year Ended July 31, 1996

Line	Customer Class	Rate Base (1)	Operating Income (2)	Rate of Return (3)	Index of Return (4)
1	Residential	$20,112,199	($668,889)	-3.33%	(184)
2	Commercial Firm	5,370,230	183,604	3.42%	189
3	Industrial Firm	65,040	7,581	11.66%	644
4	Commercial Interruptible	193,835	58,466	30.16%	1,667
5	Industrial Small Interruptible	976,455	596,393	61.08%	3,375
6	Industrial Large Interruptible	254,544	310,947	122.16%	6,750
7	Total	$26,972,303	$488,103	1.81%	100

Note: As compared to the Company proposed study, this study removes distribution costs and Take-or-Pay cost from the Industrial Large Interruptible Class.

Schedule 8-1

Exhibit No.:
Issue: Noranda Rate and Cost Of Service
Witness: Donald Johnstone
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Noranda
Case Number: GR-2006-0387
Date Testimony Prepared: October 31, 2006

Atmos Energy Corporation

Case No. GR-2006-0387

Prepared Rebuttal Testimony of

Donald Johnstone

On behalf of

Noranda Aluminum, Inc.

October 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 Rate Increase for Natural Gas Service in the Missouri Service Area of The Company.	))))))	Case No. GR-2006-0387

Affidavit of Donald Johnstone

State of Missouri)
) ss
County of _____)

Donald Johnstone, of lawful age, on his oath states: that he has reviewed the attached written testimony in question and answer form, all to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.

Donald Johnstone

Subscribed and sworn before me this 31st th day of October, 2006

Carolyn Neporadny
Notary Public

SEAL

CAROLYN NEPORADNY
Notary Public - Notary Seal
STATE OF MISSOURI
Commissioned for Camden County
My Commission Expires: August 30, 2009
Commission Number 05452654

My Commission expires:_____

Before the
Missouri Public Service Commission

Atmos Energy Corporation

Case No. GR-2006-0387

Prepared Rebuttal Testimony of Donald Johnstone

Q PLEASE STATE YOUR NAME AND ADDRESS.

A Donald Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, Missouri, 65049.

Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A I am employed as President of Competitive Energy Dynamics, L. L. C.

Q WHAT ARE THE PURPOSES OF YOUR REBUTTAL TESTIMONY?

A My purposes are to respond to the class cost of service and rate design recommendations of Staff and OPC. As in my direct testimony I confirm the intent of Noranda to abide by the Gas Transportation Agreement between Atmos and Noranda (the "Agreement" or the "Noranda Agreement") and I will again refer to the Noranda facility as the "Smelter." The Noranda Agreement

has also been referred to as the Noranda Special Contract.

I will explain several of the ways in which the cost studies of Staff and OPC overstate the cost to serve Noranda, although I will focus primarily on a single issue that overwhelms most all others in terms of its financial impact - distribution mains. I will also show the impact of the correct approach and make conforming rate recommendations.

Also, the question of imputed revenues for the Smelter is before the Commission. I will explain why revenues should not be imputed from a cost of service perspective.

As an alternative to establishing the Agreement as a rate schedule, I recommend adjusting the present rate for Large Volume service to a level even with the class cost-of-service results and the rates in the Agreement. While this approach would leave the rate substantially above cost, it would render moot the issue of revenue imputation because the tariff rate would be essentially equal to the contract rate. Furthermore, inasmuch as the rates paid by Noranda pursuant to the Agreement will continue to include a substantial contribution in excess of cost, for the benefit of the all other customers and Atmos, it makes no sense to litigate again and again the question of imputed revenues when the present large volume rate that is the basis for the computation, if unchanged, is unjust and unreasonable. The large volume rate is unjust and unreasonable for application to the Smelter because it is so extraordinarily far above any reasonably determined cost of the service

provided.

Q HAVE THERE BEEN SETTLEMENT DISCUSSIONS IN REGARD TO THE CURRENT TOTAL COST OF SERVICE, EXCLUDING THE COST OF GAS?

A There have been discussions, but no settlement. At the time of my prefiled direct testimony Atmos had applied for an increase of $3.4 million in the overall nongas revenues. In contrast, Staff in its direct case proposed a rate decrease. However, it is my understanding that Staff has not submitted a complaint for the purpose of pursuing a rate reduction. If a zero overall revenue increase were to be the result it would appear that the status quo need not change for Noranda. While this is a possibility, the joint issues list filed by the Staff makes it clear that a wide range of issues will be brought to the Commission.

Q WOULD YOU OBJECT TO MAINTAINING THE NORANDA AGREEMENT?

A No. Noranda is in the fourth year of a ten year agreement and expects to continue to receive service under the Agreement. Of course, Noranda would also need to ensure the continuing availability of interruptible service beyond the agreement and also support all reasonable actions that will bolster the likelihood that the Agreement will be allowed to run its course. Any action to restrict the availability of interruptible service or to undermine the Agreement will be opposed.

Q **HAVE YOU REVIEWED THE OPC CLASS COST-OF-SERVICE STUDY?**

A Yes. Unfortunately it grossly overstates the cost to serve Noranda. There are many reasons, but perhaps the most fundamental problem from the Noranda perspective is the failure to remove Noranda from the cost allocations related to the distribution mains. The distribution facilities are unrelated to service for Noranda and no costs should be allocated.

In other respects the study uses allocation methods that taken together produce a result that is biased against a large customer such as Noranda. For example, Ms. Meisenheimer discusses the economic concept economies of scale, but moves from an undisputed principle to a cost allocation that unreasonably shifts costs -- it removes costs from smaller customers and places them on larger customers. The effect of the application is illogical and incorrect. Instead, it is far more reasonable to allocate costs based on the principle of cost causation. The principle determinant of capacity costs -- for example the investment in transmission and distribution mains -- is the demand for service during or very near to the peak periods. Hence, the capacity related costs of mains are reasonably allocated on measures of usage during peak periods. Also, there is a customer component of the cost of mains that is often quantified and that would reflect the efficiencies of delivering gas to larger than average customers. At the other extreme costs would be allocated on annual usage without regard for the cost reducing effects of above average load factors and larger than average customer sizes. Unfortunately, the OPC

method goes beyond this extreme and would allocate even less cost to smaller customers than the extreme method of annual usage.

Interruptibility is another consideration. Service to Noranda is interruptible as a contractual matter and as a practical matter service has been interrupted from time to time. In an important sense service which is fully interruptible does not create capacity costs on shared system facilities that are not designed with the capacity to provide the service. As a practical matter customers receiving the interruptible service should, nevertheless, make some contribution to the cost of the facilities used -- even if the use is only on an as available basis.

The service to Noranda has long been interruptible and has been interrupted from time to time. There were interruptions in 1996 and 2001. In 2006 there were two unusual near misses related to a tornado and a digging caused rupture. Consequently, Noranda has good reason to expect no more than interruptible service and continues to maintain a propane system as a backup.

Q **EARLIER IN THIS TESTIMONY YOU CHARACTERIZED THE ALLOCATION OF THE COSTS OF DISTRIBUTION MAINS AS PERHAPS THE MOST IMPORTANT ISSUE FOR NORANDA. PLEASE EXPLAIN.**

A Noranda uses a large quantity of natural gas and is served off of an 8" transmission main. Due to the quantities of gas used (transported), it is both

impractical and impossible to provide service over the smaller distribution mains. Hence, no costs have been incurred by Atmos to construct distribution mains for the service provided to Noranda. It follows that no costs should be allocated if none are incurred.

Another consideration is the lack of any integrated system with the capacity to move gas to Noranda. The system is radial and Noranda is at the end of the line. There is no system of mains, whether functionalized as transmission or distribution that can bring the gas to Noranda. Hence, the Atmos system offers no service, no benefits, and has incurred no costs beyond the transmission facilities used to serve Noranda.

Another consideration is the electric analogy. When a customer is served uniquely from the transmission system (a situation familiar to Noranda) the costs of the distribution transformers is avoided. Equally important is the fact that the miles of primary distribution lines are not needed or useful. Also equally important is the even more miles of secondary distribution lines that are not needed and not useful. And beyond all the implications of the physical facilities is the operation of the system. The electrical distribution system, even though highly integrated between transmission and distribution, cannot move large quantities of power to a large customer like Noranda. As a consequence, it is a longstanding practice to allocate the cost of secondary distribution only to secondary customers, to allocate primary distribution to both secondary and primary customers since the facilities are useful to both,

and to allocate transmission facilities to all customers. My recommendations are entirely consistent with practice in the electric industry.

However, OPC has allocated the costs associated with distribution mains to Noranda. This is incorrect and only exacerbated by OPC's particular approach to the allocation of capacity costs.

Q WHAT IS THE IMPACT ON THE OPC CLASS COST-OF-SERVICE STUDY IF YOU DO NOT ALLOCATE THE COSTS ASSOCIATED WITH DISTRIBUTION MAINS TO NORANDA?

A I made adjustments to the OPC class cost-of-service study for the Southeast Missouri Division in order to reflect the physical realities of the service to Noranda. There should be no allocation to Noranda of the costs of the distribution mains that are of no use in providing service to Noranda. I also adjusted the allocation method for transmission and distribution mains with two alternative approaches. I performed one study with the mains allocation factors based on the estimated peaks and another based on the extreme approach of annual usage. With these adjustments the OPC study shows that revenues under the Noranda Agreement exceed the cost by $96,000 to $213,000. Thus, even with the use of an allocation for transmission mains that is extreme and adverse for Noranda, the study shows that the revenues provided by Noranda under the Agreement far exceed any reasonably determined cost for the service.

Q HAVE YOU PROVIDED A SUMMARY OF THE STUDIES IN SCHEDULES 1 AND 2?

A Yes. Schedule 1 is a summary of the OPC study with modifications to allocate the cost of mains on peak usage and Schedule 2 is a similar summary with modifications to allocate the cost of mains on annual usage. Neither study allocates the cost of distribution mains to Noranda. In both cases my intent is only to illustrate the cost to serve Noranda and I have made no changes beyond those necessary for my limited purposes in this situation.

Q WHAT IS THE PROPOSAL OF STAFF WITNESS ANNE ROSS ON THE MATTER OF INTERRUPTIBLE SERVICE?

A She proposes to charge firm and interruptible customers the same nongas rate for service. The proposal may or may not be appropriate for smaller customers that presently receive interruptible service, but it is certainly not appropriate for Noranda. Instead, there should be an interruptible rate available for service to Noranda that reasonably reflects the cost of the interruptible service, the only service that is available for Noranda. In the last case, GR-97-322, Associated Natural Gas, then owner of the facilities in southeast Missouri, did studies that demonstrated that the Company could not provide firm service. No one has demonstrated any change to that status with respect to Noranda.

Q WHY IS NORANDA CONCERNED WITH THE LARGE VOLUME RATE SCHEDULE INASMUCH AS IT RECEIVES SERVICE UNDER THE NORANDA AGREEMENT?

A There are several reasons. But first, please note that I have recommended that the Agreement be made a rate schedule. Noranda has no objection to the Agreement being a published as rate schedule and I have confirmed that Atmos also has no objection to its publication for that purpose. That approach would establish the continuing availability of the service, although prices may need to be visited at the close of the 10 year term December 31, 2013. On the other hand, to date the Agreement has been treated as a Special Contract. That makes it vulnerable to questions of prudence and revenue imputation; and there is no assurance that the service would be available after the Agreement has run its term. Hence if it continues to be treated as a Special Contract the otherwise applicable Large Volume rate schedule has continuing importance to Noranda as that rate would be the vehicle for service absent the Agreement. Consequently, the benefits to Noranda of maintaining the rate are several.

First, the continuation of large volume interruptible gas transportation service will ensure that the service will remain available to Noranda when the Agreement terminates. Second establishing the existing large volume rate with a price level equal to the special contract would resolve questions about prudence and any imputation of revenues that might be pursued (even though such pursuit is in my opinion unnecessary or inappropriate, or both, in Noranda's circumstances). Third, these matters would be clarified at no cost to

any party because Noranda would in any event continue to provide the same revenues under the Agreement. Hence, there would be benefits to Noranda at no cost to any other party.

Q IN THE CONTEXT OF AN ALTERNATIVE TO ESTABLISHING THE NORANDA AGREEMENT AS A RATE SCHEDULE, WHAT CHANGES DO YOU RECOMMEND TO THE LARGE VOLUME RATE?

A I recommend several changes. First the availability should be limited to customers that received service without use of the distribution mains. Second, there should be a volume threshold to ensure it will only be applicable to customers that are similarly situated to Noranda. Third, I recommend a customer charge of $265 per month, consistent with the Company proposal for large volume transportation and in excess of the customer costs computed by the Staff class cost-of-service study. Fourth, I recommend a volumetric charge $.18 per MCF, the level of the volumetric charge for the last year in the Noranda Agreement.

Q WOULD THIS HAVE THE SAME EFFECT AS MAKING THE NORANDA AGREEMENT A RATE SCHEDULE?

A The effect would be very similar through the remainder of the term of the Agreement inasmuch as service would continue to be provided under the Agreement until it had run its course. Absent some new agreement I would

presume that Noranda would move back to service under the Large Volume rate schedule January 1, 2014. Of course, Noranda's decision would not and should not be made until the time arrives so that all then current circumstances can be given consideration.

Q **WOULD THE RATE BE CONSISTENT WITH THE CURRENT COST OF THE SERVICE PROVIDED TO NORANDA?**

A No, it would be above cost. In making this statement I have given due consideration to the cost study submitted with my direct testimony, and the cost studies prepared by Staff and OPC when adjusted only to reflect the fact that distribution mains are not used in providing service to Noranda to reflect a range of capacity allocation methods.

Q **PLEASE EXPLAIN HOW YOUR RECOMMENDATION FOR THE LARGE VOLUME RATE IS CONSISTENT WITH THE STAFF CLASS COST-OF-SERVICE STUDY?**

A Again, in order to reflect the physical realities of the service to Noranda there should be no allocation to Noranda of the costs of the distribution mains that are of no direct use in providing service to Noranda. Also, I used the extremely adverse annual usage method for the allocation of the costs of the transmission mains. This approach provides a check on the computations made in my modifications of the OPC class cost-of-service study. One caveat is that the cost to Noranda will be overstated because a customer component of the mains

is not incorporated and because of my use of annual volumes for the allocation of the cost of transmission mains.

The computation is complicated slightly in the Staff study because Staff did not maintain Noranda as a separate class in its study. The changes I made were in order to provide a very conservative approximation of the effect. In contrast to the adjusted test year Noranda revenue of $ .25 per MCF, the result was $ .13 per MCF. When these results are applied to Noranda test year usage, the study so adjusted indicates that the revenues from Noranda under the Agreement are $153,000 above the costs incurred by Atmos to provide service to Noranda.

Q **PLEASE SUMMARIZE YOUR ANALYSIS OF THE CLASS COST-OF-SERVICE APPLICABLE TO NORANDA.**

A The rates under the Noranda Agreement provide revenues substantially in excess of any reasonably determined cost to provide the services consumed by Noranda. As such, my initial proposal to establish the Noranda Agreement as a rate schedule would provide no undue benefit to Noranda. Also, my alternative proposal in this rebuttal would maintain the current Large Volume rate, which has been applicable only to Noranda, and would adjust the rates to be consistent with the contract level. That too would provide no undue benefit to Noranda. What is achieved in either case is a reasonable rate and a reasonable

expectation for Noranda of a continuation of that rate without any serious concerns of continuing prudence reviews or imputations of revenues.

Q PLEASE SUMMARIZE THE IMPACT OF YOUR ANALYSIS ON ANY PROPOSAL TO IMPUTE REVENUES.

A My analysis shows that the present Large Volume rate far exceeds costs under any reasonable class cost-of-service study. In my, opinion, the rate is so far out of alignment with costs that it fails to provide any reasonable basis for imputing revenues. In contrast, with the Large Volume rate adjusted to a level even with the contract and much closer to the cost as reasonably determined, any basis for imputing revenues is effectively eliminated.

Q IS THIS A GOOD OPPORTUNITY TO ADJUST THE RATE SCHEDULES TO BETTER REFLECT THE COSTS INCURRED BY ATMOS TO PROVIDE SERVICE TO NORANDA?

A Yes. Based on the information available to me there is little or no possibility in this case of a negative effect for Atmos or any other customer. On the other hand, the Noranda Agreement would, one way or the other, be brought into the mainstream and any continuing litigation over the prudence of the contract or imputed revenues would be virtually eliminated. Thus, this is an ideal time to make the changes I recommend.

1 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

2 A Yes it does

3

OPC Modified to Allocate Mains on Peak Day CCF and to Remove Noranda from Distribution Mains

TOTAL COST OF SERVICE SUMMARY:		TOTAL	Residential	SGS	LGS	LV	Special Contract
O & M EXPENSES	3,734,351	3,893,051	2,907,783	789,953	36,616	132,095	26,605
DEPRECIATION EXPENSE	1,782,985	1,882,151	1,356,789	407,054	19,142	71,397	27,769
TAXES	1,579,928	1,674,433	1,195,160	367,589	17,178	72,700	21,805
TOTAL - Expenses and Taxes		7,449,635	5,459,731	1,564,596	72,936	276,193	76,178
		7,449,635					
CURRENT RATE REVENUE							
Purchased Gas		0	0	0	0	0	0
Non-gas margin		8,665,303	5,139,948	1,956,489	247,643	1,017,176	304,047
TOTAL RATE REVENUE(non-gas)		8,665,303	5,139,948	1,956,489	247,643	1,017,176	304,047
Other Revenue		63,877	37,890	14,422	1,826	7,498	2,241
TOTAL CURRENT REVENUES		8,729,180	5,177,838	1,970,911	249,469	1,024,674	306,288
		8,729,180					
OPERATING REVENUES INCOME		1,279,545	(281,894)	406,315	176,533	748,481	230,110
		1,279,545					
TOTAL RATE BASE		25,759,184	18,013,325	5,905,318	287,906	1,224,783	331,116
		25,762,448					
IMPLICIT RATE OF RETURN		4.97%	-1.56%	6.88%	61.32%	61.11%	69.50%
OPERATING INCOME WITH EQUALIZED RATES OF RETURN		1,279,545	894,783	293,337	14,301	60,839	16,448
		1,279,708					
REVENUE SHIFTS TO EQUALIZE CUSTOMER CLASS RATES OF RETURN (assuming unchanged Co. revenues)		0	1,176,676	(112,978)	(162,232)	(687,642)	**(213,662)**
		213,825					
PERCENTAGE REVENUE CHANGE TO EQUALIZE RATES OF RETURN		0%	23%	-6%	-66%	-68%	**-70%**
		(1)					
REQUIRED % MARGIN REVENUE CHANGE		0	0	(0)	(1)	(1)	(1)
CLASS COST OF SERVICE		8,729,342	6,354,514	1,857,933	87,237	337,032	92,626
		8,729,342					$ 0.075 per MCF

Schedule 1

OPC Modified to Allocate Mains on Annual CCF and to Remove Noranda from Distribution Mains

TOTAL COST OF SERVICE SUMMARY:		TOTAL	Residential	SGS	LGS	LV	Special Contract
O & M EXPENSES	3,493,125	3,893,051	2,681,938	735,452	75,735	349,520	50,406
DEPRECIATION EXPENSE	1,630,581	1,882,151	1,220,479	370,810	39,292	182,941	68,629
TAXES	1,428,717	1,674,433	1,057,408	332,342	38,967	193,535	52,181
TOTAL - Expenses and Taxes		7,449,635	4,959,824	1,438,605	153,995	725,996	171,215
		7,449,635					
CURRENT RATE REVENUE							
Purchased Gas		0	0	0	0	0	0
Non-gas margin		8,665,303	5,139,948	1,956,489	247,643	1,017,176	304,047
TOTAL RATE REVENUE(non-gas)		8,665,303	5,139,948	1,956,489	247,643	1,017,176	304,047
Other Revenue		63,877	37,890	14,422	1,826	7,498	2,241
TOTAL CURRENT REVENUES		8,729,180	5,177,838	1,970,911	249,469	1,024,674	306,288
		8,729,180					
OPERATING REVENUES INCOME		1,279,545	218,013	532,307	95,474	298,678	135,073
		1,279,545					
TOTAL RATE BASE		25,759,184	15,733,723	5,330,393	657,130	3,273,577	767,625
		25,762,448					
IMPLICIT RATE OF RETURN		4.97%	1.39%	9.99%	14.53%	9.12%	17.60%
OPERATING INCOME WITH EQUALIZED RATES OF RETURN		1,279,545	781,547	264,779	32,642	162,610	38,131
		1,279,708					
REVENUE SHIFTS TO EQUALIZE CUSTOMER CLASS RATES OF RETURN (assuming unchanged Co. revenues)		0	563,534	(267,528)	(62,832)	(136,069)	**(96,942)**
		97,105					
PERCENTAGE REVENUE CHANGE TO EQUALIZE RATES OF RETURN		0%	11%	-14%	-25%	-13%	**-32%**
		(0)					
REQUIRED % MARGIN REVENUE CHANGE		0	0	(0)	(0)	(0)	(0)
CLASS COST OF SERVICE		8,729,342	5,741,371	1,703,383	186,637	888,605	209,346
		8,729,342					$ 0.171 per MCF

Schedule 2