

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

**ANNUAL REPORT OF ATMOS ENERGY CORPORATION  
REGARDING THE COMPANY'S FIXED DELIVERY CHARGE RATE  
DESIGN AND ITS IMPACT ON ENERGY EFFICIENCY AND  
CONSERVATION**

Atmos Energy Corporation ("Atmos" or "Company") respectfully submits its first Annual Report regarding Atmos' fixed delivery charge rate design and its impact on energy conservation and efficiency.

**A. BACKGROUND**

In the Commission's *Report and Order* ("Order") issued in this matter on February 22, and effective March 4, 2007, the Commission authorized the Company to implement a fixed delivery charge rate design applicable to its "Residential Firm Service" and "Small Firm General Service" tariffs, contingent upon the commitment of Atmos to the development and implementation of an Energy Efficiency and Conservation Program (no later than August 31, 2007) through which the Company would contribute 1% of its annual gross non-gas revenues. The Commission Order stated that this Program would work in conjunction with the new fixed delivery charge rate design, and would be the work product of a collaborative group consisting of members of the Company, Staff, Office of the Public Counsel, and the Department of Natural Resources and any other parties that wished to participate.

In June 2007, Atmos filed original and revised tariff sheets setting forth the Program Description, General Terms and Conditions, and the specific components of the Conservation Efforts, and they were approved by the Commission's *Order Approving Tariff Sheets In Compliance With Report and Order* effective August 31, 2007.

In its Report and Order, the Commission also ordered the Company to file an annual report evaluating the impact of the new rate design on energy efficiency and conservation. The Commission stated:

*"Finally, if the fixed delivery charge rate design is implemented, Atmos shall file on an annual basis a report with the Commission for the purpose of evaluating the effect of a fixed delivery charge rate design on energy efficiency and conservation."* (Report and Order, pp. 22-23).

## **B. REPORT**

### **1. Overview**

The majority of the value in the Company's rate design as it relates to energy conservation is demonstrated by the development and implementation of the Company's Energy Efficiency and Conservation Program. The new rate design has afforded the Company the opportunity to encourage customers to consume less natural gas through the Program, without the unintended consequence of reducing the Company's earnings. In that respect, the rate design has aligned the interests of the customers and the Company. Since the Company's non-gas revenues from its residential and small commercial customers are now collected entirely through a fixed customer charge, any disincentive to encourage these particular customer classes to use less natural gas has been removed. As a result, the Company contributed \$165,000 to the Conservation Program in its first year,

and \$173,000 has been contributed for the second program year. Additionally, the Company has spent several thousand dollars outside of the Program to develop the web page and bill inserts for promotion to its customers, and also to develop various program materials.

## **2. Energy Efficiency & Conservation Program Highlights**

The first year of the Program can be characterized as a successful inaugural year, in which the Company in conjunction with the collaborative group was able to establish the administration of the program, spread the word to its customers and business partners concerning the availability and the components of the program, and begin extending the benefits of the Program to customers. Atmos worked to develop and implement a web page on the Company website which details each aspect of the three components of the Program that are available to Missouri customers. In addition, a bill insert was sent to all customers in the Company's three service territories in Missouri, in order to help launch the Program. The Company's local offices in Missouri were also educated in order to help provide Program information to walk-in customers.

The Program consists of three major components: 1) Low-Income Home Weatherization, 2) High Efficiency Space Heating Rebates, and 3) Customer Education (targeted toward elementary age children). After the initial set-up and promotion, the Program gained momentum as customers began to take advantage of the Weatherization and Rebate portions of the program. As of the end of the first year (June 30, 2008) 12 homes had been weatherized, and 6 others were in the process of being completed. Since the first home weatherizations were not completed until March 2008, only a few months of consumption data is available for each of these customers post-weatherization.

Unfortunately, it is too early to attempt to quantify the energy savings for these customers resulting from the home weatherization. However, under the program a two year reporting requirement is specified on tariff sheet 112.1, paragraph D. At that point, the Company will have available a full year's data for many of the customers whose homes have been weatherized and will be able to perform an analysis concerning the related energy savings experienced by customers who have had their homes weatherized (which generally includes additional weather stripping, caulking, insulation, and repair of cracks or places where air can travel in or out of the home).

During the first Program year, High Efficiency Space Heating rebates were issued to 46 Missouri customers. A rebate of \$250 or \$450 was issued to any customer who replaced their older less efficient space heating equipment with higher efficiency Energy Star rated equipment. The average equipment removed by customers during the first program year had an Annual Fuel Utilization Efficiency ("AFUE") of 68%, while the average AFUE of the new equipment was 93%. As a direct result of the installed higher efficiency heating equipment, it is estimated that the average customer who has taken advantage of this rebate will now consume approximately 270 Ccf less per year. This translates to over \$240 in savings over a twelve month period (assuming an average monthly PGA of .90/Ccf).

Concerning the Customer Education portion of the Program, the Company focused its efforts for the majority of the year on developing the curriculum and gaining access to present these materials in elementary schools throughout the Company's service territory. The primary focus of the first year of the program, as noted in the Company's tariff, was to develop and present educational materials to K through 12<sup>th</sup> grade students

(with primary focus on fourth/fifth grade students at this time) Included among the various educational activities to date:

- the Company developed a 7-minute video on energy conservation in the home;
- a poster with a picture of the home with various conservation tips in the video was designed and printed (a color poster is given to each teacher and a smaller black and white copy is given to each student to take home);
- talking points that address the various conservation tips in the video were developed so that the instructor can conduct a review after the video is shown (the talking points will be printed and provided to each student to take home);
- the Company purchased an activities book entitled "Let's Save Energy" from the Channing Bete Company that covers conservation (Company can provide each student the activities book, or if the teacher wishes, they will be provided to the teachers to distribute and use at a later time);
- a scratch and sniff card for each classroom was designed to teach children/customers what natural gas smells like, including a short safety message; and a brochure titled "Are You Managing Your Home Energy?", provided in both English and Spanish, was printed. Each student will receive one of these to take home.

During the second half of the Program year, the focus shifted from the development of the materials/presentation of the Customer Education component (as described in the first Biannual Report), to gaining access to the classroom, scheduling, and presenting the materials to students. Three presentations were delivered before the 2007-2008 school year ended to 4<sup>th</sup> grade students in the Hannibal public school system. The Company anticipates this activity to continue to increase during the current school

year. Meetings with school superintendents this past Spring were positive and many indicated an interest in having the materials presented to their students. These presentations will be made throughout the Company's three geographic service areas in Missouri.

### **3. Other Benefits of the Fixed Delivery Charge Rate Design**

The benefits of the new rate design go well beyond the Energy Efficiency & Conservation Program. Though the fixed delivery charge only represents approximately 20% of an average customer's total bill, that 20% is now fixed and contributes to more stability and less fluctuation in customers' gas bills. The rate design coupled with the Company's budget billing plan has provided Missouri customers greater opportunity to manage their energy costs than they were previously afforded under the traditional rate design structure (customer charge and volumetric charge per Ccf).

Another significant benefit experienced with the fixed delivery charge design is lower winter bills. The vast majority of the Company's customers currently paying the fixed delivery charge consume the most natural gas during the winter season. In recent years across the United States, gas utilities and their customers have experienced historically high natural gas prices. Peak consumption during the winter, combined with higher natural gas prices, can produce significant bills which are often times difficult to pay for the Company's customers. Having the fixed delivery charge in place effectively shifts some of the cost from the winter months to the summer months when natural gas prices and consumption levels are lower. Since the non-gas portion of the bill was fixed each month, customers paid less for gas this past winter. The average customer still pays the same amount for the natural gas usage over the course of the year, however, the fixed

delivery charge helps to reduce customer bills during periods when household energy costs are typically the highest thereby mitigating the customer exposure to higher prices and price volatility. The data below illustrates the impact by comparing the Company's booked monthly revenues from its residential customers for the one year period prior to the new rate design (April 2006 – March 2007) to the one year period after the fixed delivery charge was implemented (April 2007 – March 2008). These figures demonstrate the increased stability and lower winter bills experienced by Atmos' Missouri residential customers:

<u>Apr-06</u>	<u>May-06</u>	<u>Jun-06</u>	<u>Jul-06</u>	<u>Aug-06</u>	<u>Sep-06</u>	<u>Oct-06</u>	<u>Nov-06</u>	<u>Dec-06</u>	<u>Jan-07</u>	<u>Feb-07</u>	<u>Mar-07</u>	<u>Total</u>
777,909	523,908	467,240	437,268	433,624	427,379	514,054	793,290	1,092,704	1,221,241	1,506,005	1,219,073	9,413,695
<u>Apr-07</u>	<u>May-07</u>	<u>Jun-07</u>	<u>Jul-07</u>	<u>Aug-07</u>	<u>Sep-07</u>	<u>Oct-07</u>	<u>Nov-07</u>	<u>Dec-07</u>	<u>Jan-08</u>	<u>Feb-08</u>	<u>Mar-08</u>	<u>Total</u>
835,305	821,159	799,656	796,962	788,163	787,682	788,456	797,181	816,752	844,267	828,945	832,010	9,736,539

#### **4. Implementation of the Fixed Delivery Charge Rate Design**

Two primary concerns had been identified regarding the implementation of the fixed delivery charge rate design, and neither concern has materialized to date. The first concern centered around the possibility that there would be a large number of customer complaints during the months following the implementation of the new rate design, as customers experienced increased gas bills during the summer. The other concern was that the Company may experience an increased level of customers leaving the system to avoid paying the fixed delivery charge during months where they consume little or no natural gas. The concern was that some of these customers may ultimately switch fuels and never return to the system, thereby placing a greater financial burden on the remaining ratepayers. As noted above, thus far neither of these initial concerns has materialized. The Company has experienced only a handful of customer

inquiries/complaints related to the new rate design at the call center, local office, and Commission levels combined. The transition to the new rate design has been virtually seamless, and the Company has certainly not experienced the level of customer complaints or interest that may have been initially anticipated. Additionally, the Company has not experienced greater residential customer attrition since the implementation of the fixed delivery charge design. In fact, the average change in the number of residential customers for the five annual periods from April 2001 through March 2002, to April 2006 through March 2007 was a loss of 633 customers per year. For the same period following the new rate implementation (April 2007 through March 2008), the Company's residential customers decreased by 733. The four month period of April 2008 through July 2008, shows a residential decrease of 204 customers. The projected annual loss based on the 204 customers leaving the system in 4 months time would be approximately 612 customers. Thus far, the conclusion can be drawn that the Company has not experienced a significant change in the number residential customers as it relates to the new rate design.

## **5. Conclusion**

The new rate design has paved the way for a comprehensive and effective Energy Efficiency & Conservation Program along with the smoothing of customer bills and assisting to lower the substantially higher winter bills. To date, there is no evidence to suggest that Atmos' Missouri customers are dissatisfied with the fixed delivery charge rate design or that customer loss typically experienced in the Company's Missouri territories has any relation to the new rate design.



Respectfully submitted,

**/s/ Larry W. Dority**

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### **CERTIFICATE OF SERVICE**

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, First Class mail, postage prepaid, this 24<sup>th</sup> day of November, 2008, to all counsel of record in this matter.

**/s/ Larry W. Dority**

Larry W. Dority