

## **MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
Case No. GO-2011-0149 / File No. YG-2011-0262– Atmos Energy Corporation

FROM: Lisa Hanneken, Auditing Department  
Michael Ensrud, Tariffs/Rate Design - Energy

/s/ Tom Imhoff      01/14/11  
Project Coordinator / Date

/s/ Bob Berlin    01/14/11  
General Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Application of Atmos Energy Corporation Seeking the Missouri Public Service Commission's Approval to Re-establish an Infrastructure System Replacement Surcharge

DATE: January 14, 2011

### **BACKGROUND**

On November 22, 2010, Atmos Energy Corporation (Atmos or the Company), filed an Application and Petition (Application) with the Missouri Public Service Commission (Commission) to re-establish its Infrastructure System Replacement Surcharge (ISRS). The filing has a proposed effective date of December 22, 2010. The Commission's Rule Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges at 4 CSR 240-3.265 allows Gas corporations to recover certain infrastructure system replacement costs outside of a formal rate case filing through a surcharge on customers' bills. Atmos initially filed a tariff sheet that would generate a total annual revenue requirement of \$381,998.

Presently, Atmos has no ISRS surcharge since Atmos' ISRS rates were set at zero in its last rate case – GR-2010-0192.

On December 6, 2010, the Commission issued its order stating *"Staff Counsel shall file a recommendation no later than 12:00 p.m. on December 10, 2010."*

On December 7, 2010, the Commission issued its ORDER SUSPENDING TARIFF, DIRECTING NOTICE AND SETTING INTERVENTION DEADLINE (Order) that rescinded the above-referenced December 10 filing deadline. That Order also suspended Atmos' filing until March 22, 2011, and set the intervention deadline to be *"no later than December 22, 2010"*.

On December 17, 2010, Noranda Aluminum filed its APPLICATION TO INTERVENE OF NORANDA. On December 28, 2010, the Commission issued its ORDER GRANTING APPLICATION TO INTERVENE in response to Noranda's request to be a party of record.

Atmos is unique among Missouri natural gas local distribution companies in that it has specific ISRS rates for each of its three districts. Therefore, Atmos needs district-specific revenue requirements in order to calculate those district-specific ISRS rates. Atmos proposes (Column 1) to re-establish ISRS rates in a manner that will have the following district-specific revenue impact – both incremental to this filing and cumulative:

	Company Filed Request		Staff Amounts		Staff Adjustment (Difference)
Northeast District - NEMO	\$243,512		\$165,397		(\$78,115)
Southeast District - SEMO	\$124,441		\$100,567		(\$23,874)
West District - WEMO	\$14,045		\$11,116		(\$2,929)
<b>Total Company ISRS Revenue</b>	<b>\$381,998</b>		<b>\$277,081</b>		<b>(\$104,918)</b>

Based on Staff's adjustments discussed below, Staff proposes (Column 2) that the initially-filed annual Revenue Requirement of \$381,998 be reduced to \$277,081 distributed among Atmos' three operating districts as shown in the chart above.

## STAFF'S INVESTIGATION

Staff from the Auditing and Energy Departments participated in the investigation of Atmos' Application. The investigation included a review of: the Application, all supporting documentation, Missouri statutory sections 393.1009, 393.1012 and 393.1015 RSMo and all additional data provided by Atmos.

While this filing fails to meet the \$1,000,000 threshold requirement set forth in Rule 4 CSR 240-3.265 (2), it does qualify as a valid filing by meeting the alternative requirement of the requested increase exceeding "*one-half of one percent (1/2%) of the natural gas utility's base revenue level approved by the commission in the natural gas utility's most recent general rate case proceeding*".

## THE APPLICATION

Atmos proposes that its ISRS rates be based upon the customer count from its last rate case (GR-2010-0192). This means the ISRS rates are based on "average customers for the period ending June 30, 2009." In its application, Atmos justifies use of this customer count by referencing Section 393.1015.5(1) which provides:

*Provided, however, that the monthly ISRS **may** vary according to customer class and may be calculated based on customer numbers as determined during the most recent general rate proceeding of the gas corporation so long as the monthly ISRS for each customer class maintains a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class. (Emphasis added)*

According to its application, Atmos is seeking to recover costs of ISRS-qualifying plant placed in service from March 1, 2010 through September 30, 2010. As part of its ISRS filing, Atmos included adjustments to account for changes in depreciation and accumulated deferred income

taxes through February 28, 2011. The inclusion of these adjustments is consistent with the approach agreed to in previous Atmos ISRS filings and with Staff's view that the calculation of the ISRS revenue requirement should closely reflect the revenue requirement at the effective date of the ISRS rates.

#### **STAFF REVIEW and EXPLANATION of ADJUSTMENTS**

In response to Atmos' current ISRS filing, the Staff reviewed the Atmos ISRS application, all supporting work-papers and calculations, a sample of work orders, and participated in various meetings and discussions with Company personnel. Subsequent to the initial ISRS filing, Atmos provided the Staff with updated work-papers that corrected a minor calculation error that existed in its filing that affected only the SEMO district. This correction increased the amount of ISRS revenues required for the SEMO district by \$1,365. The Staff reviewed and accepted this correction as part of its determination of the ISRS revenue requirement for the SEMO district in this case.

A final reconciliation of the ISRS revenue previously collected by the Company is required to identify any under-collections or over-collections that may have occurred. Based upon this reconciliation, the Staff determined that on a total company basis Atmos had over-collected \$88,651 of ISRS revenues from its customers, throughout the period in which previously authorized ISRS rates were billed, November 4, 2008 through August 31, 2010. This total company over-collection on a district specific basis is as follows: NEMO \$64,906, SEMO \$20,907 and WEMO \$2,839. The Staff reduced each respective Atmos district ISRS revenue requirement in the current case to reflect each district specific over-collection amount.

During its review of the Company's ISRS filing, the Staff discovered that Atmos' ISRS revenue requirement calculations did not account for all of the accumulated deferred income taxes on ISRS eligible plant additions. Staff adjusted the Company's Accumulated Deferred Income Taxes using the methodology employed in the Company's last ISRS case, as well as in other ISRS cases for other utilities regulated by this Commission. This adjustment resulted in a \$16,661 reduction to the total company revenue requirement calculation. On a district specific basis, the Staff reflected adjustments to reduce the revenue requirement for each Atmos rate district as follows: NEMO \$12,645, SEMO \$3,959 and WEMO \$57.

As part of its analysis of the Company's work-papers, the Staff discovered a calculation error by the Company in determining its effective income tax rate. The Staff made an adjustment to reflect the proper calculation of the Company's tax rate. This adjustment resulted in a \$970 reduction in the total company ISRS revenue requirement calculation. On a district specific basis, the Staff reflected adjustments to reduce revenue requirement for each Atmos rate district as follows: NEMO \$564, SEMO \$374 and WEMO \$33.

#### **THE ISRS RATE SCHEDULES**

Staff's proposed rates are consistent with the methodology used to establish Atmos' past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other utilities.

Staff's proposed ISRS rates are contained in Attachment B, attached hereto and incorporated by reference herein.

The Staff has verified that the Company has filed its 2009 annual report and is not delinquent on any assessment. The Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

P.S.C. MO. No. 2

4th Revised SHEET NO. 19, Cancelling 3rd SHEET NO. 19

### **RECOMMENDATION**

Based upon the above, the Staff recommends that the Commission issue an order in this case that:

1. Rejects the ISRS tariff sheet (YG-2011-0262) filed by Atmos on November 22, 2010;
2. Approves the Staff's determination of the incremental ISRS surcharge revenues in the amount of annual pre-tax revenues of \$277,081, consisting of \$11,116 for the West District, \$100,567 for the Southeast District, and \$165,397 for the Northeast District; and
3. Authorizes Atmos to file an ISRS rate for each customer class as reflected in Appendix B.

**Atmos Energy Corporation**  
**Missouri Jurisdiction**  
**ISRS Rate Design (GO-2011-0149)**

<b>Total ISRS Revenues</b>	<b>\$277,081</b>
<i>Northeast District (NEMO)</i>	\$165,397
<i>Southeast District (SEMO)</i>	\$100,567
<i>West District (WEMO)</i>	\$11,116

June 2009 ISRS Rate Design							
Rate District & Class	Number of Customers*	Customer Charge	Ratio to	Weighted	Customer Percentage	ISRS Charge	ISRS Revenues
			Residential Customer Charge	Customer Numbers			
Northeast District							
Firm Residential	16,354	22.68	1.0000	16,354	80.7767%	0.68	\$133,602
Small Firm GS	2,093	22.68	1.0000	2,093	10.3379%	0.68	17,099
Medium Firm GS	338	100.00	4.4092	1,490	7.3610%	3.00	12,175
Large Firm GS	11	500.00	22.0459	243	1.1978%	15.01	1,981
Interruptible Large Volume	3	500.00	22.0459	66	0.3267%	15.01	540
Total NEMO	18,799			20,246	100.0000%		\$165,397
Southeast District							
Firm Residential	28,845	13.75	1.0000	28,845	77.9934%	0.23	\$78,436
Small Firm GS	3,448	13.75	1.0000	3,448	9.3230%	0.23	9,376
Medium Firm GS	555	100.00	7.2727	4,036	10.9138%	1.65	10,976
Large Firm GS	15	500.00	36.3636	545	1.4748%	8.24	1,483
Interruptible Large Volume	3	500.00	36.3636	109	0.2950%	8.24	297
Total SEMO	32,866			36,984	100.0000%		\$100,567
West District							
Firm Residential	3,401	20.17	1.0000	3,401	79.8168%	0.22	\$8,872
Small Firm GS	508	20.17	1.0000	508	11.9221%	0.22	1,325
Medium Firm GS	46	100.00	4.9579	228	5.3523%	1.08	595
Large Firm GS	5	500.00	24.7893	124	2.9089%	5.39	323
Interruptible Large Volume	-	500.00	24.7893	0	0.0000%	0.00	0
Total WEMO	3,960			4,261	100.0000%		\$11,116
Total Missouri	55,625			61,491	100.0000%		\$277,080

\*Average customers period ending June 30, 2009; per Atmos rate case GR-2010-0192.

Firm Residential	48,600
Small Firm GS	6,049
Medium Firm GS	939
Large Firm GS	31
Interruptible Large Volume	6
	<b>55,625</b>

\* Due to rounding to the nearest penny, the designed ISRS rates will over-collect by \$1274. However, it should be noted that the total amount collected will be true-up at a later date.

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

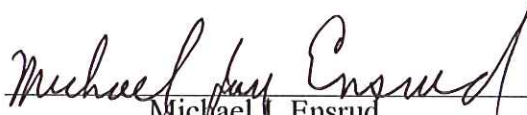
In the Matter of the Verified )  
Application and Petition of Atmos )  
Energy Corporation to Change its )  
Infrastructure System Replacement )  
Surcharge. )

Case No. GO-2011-0149  
YG-2011-0262

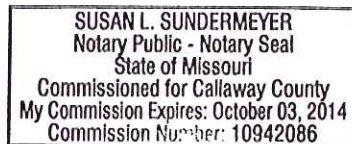
**AFFIDAVIT OF MICHAEL J. ENSRUD**

STATE OF MISSOURI )  
 ) ss  
COUNTY OF COLE )

Michael J. Ensrud, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.

  
Michael J. Ensrud

Subscribed and sworn to before me this 14<sup>th</sup> day of January, 2011.



  
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of the Verified Application and )  
Petition of Atmos Energy Corporation to )  
Change its Infrastructure System Replacement )  
Surcharge )

Case No. GO-2011-0149

AFFIDAVIT OF LISA K. HANNEKEN

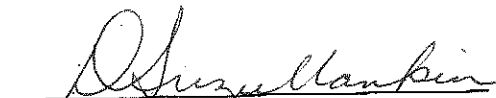
STATE OF MISSOURI )  
COUNTY OF Cole ) ss.

Lisa K. Hanneken, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.

  
Lisa K. Hanneken

Subscribed and sworn to before me this 14<sup>th</sup> day of January, 2011.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: December 08, 2012  
Commission Number: 08412071

  
Notary Public