

**IN THE MATTER OF THE INVESTIGATION)
INTO ATMOS ENERGY CORPORATION)
REGARDING FEBRUARY 2021 WINTER)
WEATHER EVENTS, AS CONTEMPLATED)
BY DOCKET NO. GIMX-303-MIS)**

DOCKET NO. 21-ATMG-333-GIG

**DIRECT TESTIMONY OF
KENNETH M. MALTER**

SEPTEMBER 14, 2021

TABLE OF CONTENTS

I.	INTRODUCTION AND QUALIFICATIONS	1
II.	GAS SUPPLY PRACTICES AND PROCEDURES	2
III.	DESCRIPTION OF EVENTS OF FEBRUARY 2021.....	9
IV.	LESSONS LEARNED FROM WINTER EVENT.....	14

LIST OF EXHIBITS:

Exhibit KMM-1 (CONFIDENTIAL)
Exhibit KMM-2 (CONFIDENTIAL)
Exhibit KMM-3 (CONFIDENTIAL)

1 **DIRECT TESTIMONY OF KENNETH M. MALTER**

2 **I. INTRODUCTION AND QUALIFICATIONS**

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is Kenneth M. Malter. My business address is 1100 Poydras Street, Suite
5 3400, New Orleans, LA 70163.

6 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

7 A. I am the Director of Gas Supply and Services for Atmos Energy Corporation
8 ("Atmos Energy" or the "Company").

9 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES.**

10 A. I am responsible for the department that is tasked with the procurement and
11 administration of gas supply and transportation services for the entire Company.

12 **Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL**
13 **QUALIFICATIONS.**

14 A. I graduated from Louisiana State University with a BS in finance in 1989. I also
15 completed a master's degree in business administration from Tulane University in
16 1995. I have worked in various positions at Atmos Energy involving natural gas
17 markets for the past 23 years.

18 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
19 **COMMISSIONS?**

20 A. Yes, I have submitted testimony before the Mississippi Public Service Commission,
21 the Kansas Corporation Commission ("Commission"), and the Texas Railroad
22 Commission on Gas Supply related matters.

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

2 A. I will discuss the Company's normal Gas Supply practices and procedures. I will
3 then provide a timeline of events from the perspective of Gas Supply that relate to
4 the decisions made and prices paid for natural gas on February 12-19, 2021
5 ("Winter Event"). Finally, I discuss the lessons learned from the Winter Event.

6 **Q. ARE YOU SPONSORING ANY EXHIBITS AS PART OF YOUR**
7 **TESTIMONY?**

8 A. Yes. Confidential Exhibit No. KMM-1 contains schedules showing Atmos
9 Energy's daily usage by pipeline. Confidential Exhibit No. KMM-2 contains the
10 Asset Management Arrangement and Gas Supply Contracts used by the Company
11 in Kansas in February 2021. Confidential Exhibit No. KMM-3 is Atmos Energy's
12 Gas Supply Plan that was in effect during the Winter Event and a copy of Staff's
13 Report and Recommendation relating to the Gas Supply Plan.

14 **II. GAS SUPPLY PRACTICES AND PROCEDURES**

15 **Q. CAN YOU IDENTIFY ATMOS ENERGY'S 2020-2021 WRITTEN GAS**
16 **SUPPLY PLAN THAT IS ATTACHED TO YOUR TESTIMONY AS**
17 **EXHIBIT NO. KMM-3?**

18 A. Yes. Atmos Energy's Gas Supply Plan (Plan) provides a comprehensive
19 framework to satisfy both the baseline and variable gas supply needs of our sales
20 customers. The Plan focuses on providing a reliable gas supply at a market based
21 price, while taking into account the Company's operational and management
22 requirements. Atmos Energy submits the Plan each year to the Commission for
23 review pursuant to the requirements contained in Docket No. 75-GIMC-009-GIG

1 and in Atmos Energy's specific gas purchasing practices docket, Docket No. 02-
2 GRLG-364-GPR. The Company meets each year with representatives from both
3 the Commission Staff and the Citizens' Utility Ratepayer Board ("CURB") to
4 discuss the various aspects of the Plan. The Commission Staff issues a report and
5 recommendation to the Commission following the annual meeting. A public
6 version of Staff's report and recommendation filed on June 5, 2020, which sets
7 forth the analysis conducted by Staff on Atmos Energy's 2020-2021 Plan is
8 provided as part of Exhibit No. KMM-3.

9 **Q. HOW DOES THE COMPANY CONTRACT FOR GAS SUPPLY IN**
10 **KANSAS?**

11 A. The Company primarily relies upon Asset Management Arrangements to provide
12 gas supply in Kansas. In those areas where Asset Management Arrangements are
13 not used, standard supply-only agreements are executed.

14 **Q. HOW DOES THE COMPANY ENTER INTO THESE ASSET**
15 **MANAGEMENT ARRANGEMENTS AND SUPPLY-ONLY**
16 **AGREEMENTS?**

17 A. The Company issues requests for proposals ("RFP") through its online RFP system
18 soliciting bids for supply. RFPs are posted on the Company's online website for a
19 specified period of time and can be viewed by all registered users. Once the posting
20 time has expired, bids are opened and analyzed to select the bid(s) with the best
21 value to Atmos Energy's Kansas customers. All of the Asset Management and
22 supply-only agreements in effect during February 2021 were entered into prior to
23 the start of the 2020-2021 winter season.

1 **Q. WHY DOES THE COMPANY USE AN ASSET MANAGEMENT**
2 **ARRANGEMENT AND AN ASSET MANAGER?**

3 A. The Asset Manager pays for the ability to use the Company's unutilized capacity
4 during times when the contract maximum daily quantity is greater than that required
5 by the Company's customers. A substantial portion of those payments are credited
6 against gas cost expense and inure to the benefit of our customers. These types of
7 arrangements for interstate pipeline capacity are explicitly contemplated and
8 permitted by the Federal Energy Regulatory Commission's ("FERC") Order No.
9 712. This arrangement ensures reliable supply at market prices while generating
10 cost savings for our customers through the Asset Manager's payments.

11 **Q. HOW ARE STORAGE REQUIREMENTS ADDRESSED UNDER THE**
12 **COMPANY'S ASSET MANAGEMENT ARRANGEMENT AND SUPPLY**
13 **ONLY PURCHASES?**

14 A. For Company owned storage directly connected to the Company's distribution
15 system, the Asset Manager is responsible for ensuring injections and withdrawals
16 are executed in accordance with the submitted supply plan. For storage upstream
17 of the distribution system and contracted for with third parties the underlying
18 storage capacity is released to the Asset Manager. However, the Asset
19 Management Arrangement entitles Atmos Energy to the use of that storage capacity
20 and deliverability as if it were still in the Company's own name.

1 **Q. HOW ARE NATURAL GAS PURCHASES STRUCTURED UNDER THE**
2 **ASSET MANAGEMENT ARRANGEMENTS AND THE SUPPLY-ONLY**
3 **PURCHASES?**

4 A. The Company makes a monthly “Base load” election as well as daily “Incremental
5 Gas” elections. The Company is also allowed to sell back excess natural gas (if
6 necessary) to the Asset Manager that provided it.

7 **Q. WHAT IS THE DIFFERENCE IN PRICE BETWEEN THE DIFFERENT**
8 **TYPES OF PURCHASES?**

9 A. Base load natural gas is priced based upon a published “First-of-the-Month” or
10 “FOM” index price. Incremental Gas is priced based upon a published “Gas Daily”
11 or “GD” price. The FOM price and volume is the same throughout each day of a
12 month, while the GD price and volume may fluctuate from day-to-day. Each
13 contract may have premiums/discounts to the various index prices (for example,
14 “FOM minus \$.01” or “FOM plus \$.02”). Natural gas that is sold back to the Asset
15 Manager is typically sold back at a discount to the applicable daily index price.

16 **Q. WHY DOES THE COMPANY STRUCTURE ITS PURCHASES UNDER**
17 **THE ASSET MANAGEMENT ARRANGEMENTS THIS WAY?**

18 A. For the most part, the industry structures transactions around the published FOM
19 and GD index prices. It is a way for parties to standardize pricing terms and ensure
20 market prices for natural gas purchases.

1 **Q. WHAT DOES THE COMPANY DO WHEN IT BECOMES AWARE OF A**
2 **FORECAST THAT SHOWS A “PEAK EVENT” WHERE THE COMPANY**
3 **ANTICIPATES IT WILL BE AT OR NEAR MAXIMUM CAPACITY?**

4 A. A Design Day is the coldest day expected in any 30-year period. When weather is
5 predicted to meet or exceed 75% of the Heating Degree Days (HDDs) for a Design
6 Day, the various members of the Atmos Energy Gas Supply Team including
7 Division personnel and Gas Control as needed, will convene a short-term forecast
8 meeting in advance of the deadline to contractually purchase gas supplies for the
9 relevant time period and develop a preliminary gas supply plan. The Atmos Energy
10 Gas Supply Team reviews its contractual purchase and storage options based upon
11 the most recent information available at that time.

12 **Q. WAS ANY PORTION OF THE WINTER EVENT FORECASTED TO BE A**
13 **“PEAK EVENT” FOR ANY OF THE COMPANY’S SERVICE**
14 **TERRITORY IN KANSAS?**

15 A. Yes. As February progressed, all areas that Atmos Energy serves in Kansas were
16 forecasted to be at least 75% of the Design Day HDD for the 12th through the 15th.
17 On February 16th, all areas except Southwest Kansas were forecasted to be at least
18 75% of the Design Day HDD. On February 17th, south central Kansas was the only
19 area forecasted to be 75% of the Design Day HDD. February 18th and 19th were
20 not forecasted to be a peak event.

1 **Q. WHEN DID ATMOS ENERGY NEED TO MAKE ITS ELECTIONS FOR**
2 **PURCHASES FOR THE WEEKEND OF FEBRUARY 13th THROUGH 16th?**

3 A. On Friday morning, February 12th before the purchase deadline of 8 a.m. CST, the
4 Company's forecast model was updated with the newly available weather forecast
5 and updated the supply plan as applicable. By 8 am CT on February 12th, the
6 Company had contacted all of its suppliers and made its elections for the long
7 weekend purchasing period of February 13th-16th.

8 **Q. DOES THIS APPROACH TO GAS SUPPLY ARRANGEMENTS**
9 **UNREASONABLY EXPOSE THE COMPANY AND ITS CUSTOMERS TO**
10 **DAILY PRICE CHANGES?**

11 A. No. It would not be cost-effective to try to eliminate all exposure to daily price
12 risk. While Base load nominations and storage both mitigate exposure to daily
13 price risk, the only way to completely avoid having exposure to daily price risk
14 would be to dramatically increase storage contracts, assuming additional storage
15 capacity was available, and/or increase Base load nominations. Increasing storage
16 entitlements to a level that would eliminate all daily price risk would be
17 prohibitively expensive. Increasing Base load nominations to the maximum
18 possible demand would expose the customers to the price risk of having to sell back
19 excess gas almost every day of the year.

1 **Q. HOW DOES THE COMPANY DETERMINE WHAT UPSTREAM**
2 **PIPELINE STORAGE AND TRANSPORTATION CONTRACTS TO**
3 **HOLD FOR ITS KANSAS CUSTOMERS?**

4 A. Atmos Energy maintains a combination of firm gas transportation (“FT”) contracts,
5 storage services contracts, referred to as no notice storage service (“NNS”)
6 contracts, and Company owned storage. With the combination of these three types
7 of services contracts, varying customer requirements due to weather changes can
8 be managed effectively. Flowing gas supplies can be delivered utilizing FT
9 contracts and NNS contracts. In the winter, the daily withdrawal rights associated
10 with Atmos Energy’s third party pipeline storage on Southern Star Central Gas
11 Pipeline, Inc. (“Southern Star”), Enable Gas Transmission Pipeline and Liberty
12 Storage (Atmos Energy’s company owned storage) remain the same throughout the
13 season regardless of the storage level. Atmos Energy’s withdrawal rights on
14 Tallgrass Interstate Gas Transmission (“Tallgrass”) are ratcheted based on storage
15 inventory levels. The FT contracts are used to flow both base load volumes and
16 swing volumes up to the contracted capacity. The combined FT and NNS contracts
17 as well as Company owned storage (where applicable) are used to flow both system
18 supply gas and injections/withdrawals into/out of storage to meet daily
19 requirements.

20 In the gas transportation portfolio, Atmos Energy has a combination of firm
21 transportation capacity and storage entitlements to cover its peak design day
22 requirements. In the gas supply portfolio, Atmos Energy has contracted for
23 commodity gas supply for up to the maximum contract capacity across all of the

1 pipeline systems. These commodity contracts are also structured so that monthly
2 and daily customer load changes can be accommodated. Typically, Atmos Energy
3 will schedule a daily fixed volume (base load) to be delivered throughout the
4 month. As customer requirements change during the month, swing gas is available
5 to cover those needs.

6 **Q. WHAT STEPS DOES THE COMPANY TAKE TO REDUCE EXPOSURE**
7 **TO VOLATILE MARKET PRICES?**

8 A. The Company strives to reduce exposure to price volatility by hedging a portion of
9 normal winter purchases through call options. Atmos Energy's hedge programs
10 worked as planned during Winter Storm Uri since the program is primarily
11 designed to hedge a portion of Atmos Energy's baseload supply. The program is
12 not intended to protect against temporary intra-month price spikes. Atmos Energy
13 also used gas storage to mitigate the extreme pricing experienced during the winter
14 weather event. Atmos Energy reviews transportation and storage portfolios on an
15 annual basis to ensure that it contracts for sufficient capacity to meet peak day
16 conditions and adjusts as necessary.

17 **III. DESCRIPTION OF EVENTS OF FEBRUARY 2021**

18 **Q. PLEASE PROVIDE A NARRATIVE DESCRIPTION OF HOW ATMOS**
19 **ENERGY CONTRACTED TO PURCHASE GAS DURING FEBRUARY**
20 **2021.**

21 A. Atmos Energy had an Asset Management Agreement with Symmetry Energy
22 Solutions, LLC ("Symmetry") on Southern Star, Panhandle Eastern Pipeline
23 Company and KPC Pipelines. Atmos Energy has supply arrangements with other

1 gas supply providers to provide gas to its customers that are served off of Enable,
2 Tallgrass and Kansas Gas Service (“KGS”). Those transactions obligated those
3 counterparties to sell natural gas to the Company at index-based prices. The Asset
4 Manager and suppliers had entered into contracts to sell natural gas to Atmos
5 Energy up to its contracted maximum daily transportation quantities, as well as to
6 schedule and nominate those quantities of natural gas on the relevant pipelines.
7 Under the Asset Management agreement and supply-only transactions, Atmos
8 Energy submits a flat “Base load” nomination for each month for deliveries to its
9 distribution systems. That nomination is due on the fifth business day prior to the
10 beginning of each month. Base load nominations for February 2021 were due on
11 January 25, 2021. Atmos Energy is also permitted to request “Incremental Gas” up
12 until 8:00 AM Central Time on the day prior to flow. For example, Incremental
13 Gas for February 17th had to be requested prior to 8:00 AM Central Time on
14 February 16th. Excess natural gas can also be sold back to the providing Asset
15 Manager, using the same nomination deadline as for “Incremental Gas.”

16 **Q. WHAT CHOICES DID THE COMPANY MAKE REGARDING ITS**
17 **PURCHASES FOR FEBRUARY 2021?**

18 A. The Company submitted a timely request for Base load purchases based upon its
19 modeling of projected usage for February 2021, which was based off the most
20 recent load studies completed by the Planning group within Gas Supply. By 8 a.m.
21 on February 11th, the Company purchased natural gas for February 12, 2021. By 8
22 a.m. on February 12th the Company purchased natural gas for the February 13th-16th
23 timeframe. That purchase period was for four days because of the holiday weekend.

1 Additional timely requests for needed Incremental Gas were subsequently made for
2 each individual day through February 19th. All of those purchases were based on
3 the forecasted weather and load from the Company's Short Term Forecast models.

4 **Q. CAN ATMOS ENERGY PURCHASE ADDITIONAL GAS AFTER 8:00 AM**
5 **CST ON THE DAY PRIOR TO FLOW?**

6 A. Yes, that is referred to as "Intra-Day Gas." However, pricing for Intra-Day Gas is
7 not agreed to in advance like it is for Base load gas and Incremental Gas. Those
8 prices would be negotiated contemporaneously based on current market conditions.

9 **Q. DID THE COMPANY BUY ANY INTRA-DAY GAS DURING FEB 13th-FEB**
10 **19th?**

11 A. No. The Company did not purchase Intra-Day Gas.

12 **Q. DID THE COMPANY SELL BACK ANY NATURAL GAS DURING FEB**
13 **12th-FEB 19th?**

14 A. No, the Company took delivery of all the gas that it had agreed to purchase for those
15 days.

16 **Q. DID THE COMPANY USE ANY GAS OTHER THAN BASE LOAD GAS,**
17 **INCREMENTAL GAS, AND STORAGE GAS DURING FEB 12th – 19th?**

18 A. Yes, certain unavoidable overruns on KGS due to Force Majeure of supply were
19 also necessary to meet the demand of customers served by Atmos Energy from the
20 KGS system.

1 **Q. DID THE COMPANY HAVE ANY LOWER COST ALTERNATIVE TO**
2 **PURCHASING GAS FROM ITS COUNTERPARTIES TO MEET ITS**
3 **NEEDS ON FEBRUARY 12th-19th?**

4 A. No. The counterparties were already obligated to provide Incremental Gas up to
5 the maximum contractual quantities available under the Company's pipeline
6 contracts at a GD price. This was sufficient to meet the Company's forecasted
7 needs. The Company is not aware of any market participant that would have
8 willingly sold Incremental Gas to the Company at any price less than GD.

9 **Q. DID THE COMPANY SEEK TO REDUCE ITS DEMAND FOR GAS**
10 **DURING FEBRUARY 12th-19th?**

11 A. The Company interrupted customers, and in some instances curtailed customers.
12 The Company also asked customers to voluntarily reduce their usage. This is
13 discussed in greater detail by Rob Leivo in his Direct Testimony.

14 **Q. WHEN THE UNREGULATED NATURAL GAS MARKETS IN THE**
15 **WESTERN UNITED STATES WERE SETTING RECORD PRICES IN**
16 **FEBRUARY 2021, HOW DID THE COMPANY RESPOND?**

17 A. The Company followed its gas purchasing plan and processes. The Company relied
18 upon its contracted storage rights to help fulfill its customers' gas needs. Due to
19 the Company's contracting practices, it was not exposed to having to make
20 purchases of Intra-Day Gas. Only two of the Company's suppliers failed to perform
21 their contractual obligations in Kansas, that failure representing approximately 1%
22 of February supply. The Company was able to purchase 99% of the natural gas it
23 needed to serve its customers at market prices during February.

1 **Q. WHAT DID THE COMPANY DO TO VERIFY ITS NATURAL GAS**
2 **INVOICES FOR FEBRUARY 2021?**

3 A. The Company was able to follow its normal procedures. Reconciliation of invoices
4 required verifying that contracted volumes of natural gas were delivered. Contract
5 prices which were based on FOM or GD pricing were multiplied by volumes
6 delivered to reconcile invoiced amounts.

7 **Q. WHAT WERE THE EXTRAORDINARY NATURAL GAS COSTS DURING**
8 **FEBRUARY 12th-19th?**

9 A. All of the natural gas consumed by the Company's customers during February 12th-
10 19th was priced one of four ways: (1) FOM; (2) GD; (3) Storage; and KGS penalty
11 pricing. FOM pricing and Storage pricing were not impacted by the market
12 disruption of February 12th-19th. FOM pricing was set by the bid week in January,
13 when markets were behaving normally. Storage prices are determined by the
14 market prices at the time the Company injects natural gas into storage, at which
15 time the markets were behaving normally. Accordingly, it is only those volumes
16 of Incremental Gas and KGS penalty prices that were affected by GD pricing that
17 reflect the extraordinary prices of February 12th-19th. A list of gas sources and costs
18 by day is included as Confidential Attachment KMM-1 to my testimony. For the
19 purposes of this proceeding, the Company has defined "normal" gas costs as the
20 three-month average of the FOM Southern Star index price (Nov-Dec-Jan).

1 **Q. WHAT IS THE TOTAL AMOUNT OF GAS SUPPLY RELATED COSTS**
2 **THAT ATMOS ENERGY HAS DEFERRED TO THE REGULATORY**
3 **ASSET PURSUANT TO THE COMMISSION’S FEBRUARY 15, 2021**
4 **EMERGENCY ORDER ISSUED IN DOCKET NO. 21-GIMX-303-MIS?**

5 A. Atmos Energy has deferred approximately \$88 million in extraordinary gas supply
6 related costs. This amount includes the amount of the penalty currently being
7 proposed by KGS.

8 **IV. LESSONS LEARNED FROM WINTER EVENT**

9 **Q. WHAT CHANGES DID ATMOS ENERGY PURSUE TO ITS KANSAS GAS**
10 **SUPPLY PLAN IN RESPONSE TO WINTER STORM URI?**

11 A. Gas Supply evaluated opportunities to change receipt point entitlements in order to
12 gain access to more diverse sources of supply, but no meaningful changes were
13 possible. The Company also looked at additional incremental storage options, but
14 none were available. Gas Supply is still considering other options.

15 **Q. DOES ATMOS ENERGY INTEND TO PROPOSE ANY CHANGES TO ITS**
16 **2021-2022 GAS SUPPLY PLAN IN AN EFFORT TO MITIGATE GAS**
17 **SUPPLY COSTS SHOULD A SIMILAR EVENT OCCUR DURING THE**
18 **UPCOMING WINTER?**

19 A. Yes. Atmos Energy is currently reviewing opportunities to potentially mitigate gas
20 supply costs should a similar event occur during the upcoming winter. In the event
21 there are any changes, Atmos Energy would supplement its current Gas Supply
22 Plan and discuss those options with Staff and CURB before implementation of any
23 of those options. Those options may come at an additional cost and Atmos Energy

1 will include any cost/benefit analysis relating to those options in its discussions
2 with Staff and CURB.

3 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4 A. Yes.

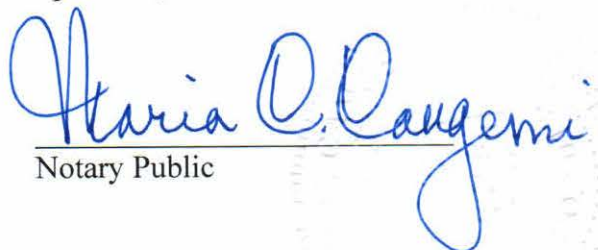
VERIFICATION

STATE OF LOUISIANA)
)
PARISH OF JEFFERSON)

Kenneth M. Malter, being duly sworn upon his oath, deposes and states that he is Director of Gas Supply and Services for Atmos Energy Corporation; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information and belief.


Kenneth M. Malter

Subscribed and sworn before me this 12th day of September, 2021.


Notary Public

My appointment expires: at death

MARIA C. CANGEMI
NOTARY PUBLIC
LOUISIANA BAR NO. 20136
My Commission is for Life.

CONFIDENTIAL

EXHIBIT KMM-1

CONFIDENTIAL

EXHIBIT KMM-2

CONFIDENTIAL

EXHIBIT KMM-3