

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

IN THE MATTER OF THE APPLICATION)	Docket No.
OF ATMOS ENERGY CORPORATION)	
FOR REVIEW AND ADJUSTMENT OF ITS)	
NATURAL GAS RATES)	10-ATMG-____-RTS

**DIRECT TESTIMONY OF
BARTON W. ARMSTRONG
FOR ATMOS ENERGY CORPORATION**

I. INTRODUCTION

1
2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is Barton W. Armstrong, and my business address is 25090 W. 110th Terrace,
4 Olathe, Kansas 66061.

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL**
6 **EXPERIENCE AND CURRENT RESPONSIBILITIES.**

7 **A.** I am employed by Atmos Energy ("Atmos" or "Company") as Vice President of Operations.
8 In that capacity, I have overall responsibility for the safe and reliable provision of gas service
9 in the Kansas Region, including daily operations and maintenance activities, and planning and
10 completion of capital investment projects. I received a Bachelor of Science degree from Texas
11 Tech University, Lubbock, Texas, in 1991. I have been employed in the natural gas
12 distribution business for 19 years, during which time I have worked in various capacities in
13 operations and marketing. In 1990, I began working for Atmos (formerly Energas) in

1 Lubbock, Texas as a utility worker in the service department. From 1993 to 2006 I worked in
2 the Marketing department in various roles including Sales Representative, Industrial and Large
3 Volume Sales Manager and Marketing Manager for the West Texas Division. In this role I
4 was responsible for all business development, gas transportation revenues, sales revenues,
5 customer growth and operations of an intrastate pipeline that supplied natural gas to over
6 200,000 customers in West Texas. In 2007 I was promoted to Operations Manager in
7 Lubbock. In that capacity, I was responsible for 89 employees, 6,000 miles of pipe, all daily
8 field operations, maintenance and capital projects. In 2008 I was promoted to Vice President
9 of Marketing for the Colorado-Kansas Division and relocated to Olathe, Kansas, where I was
10 responsible for coordinating growth activity, business development, and customer service for
11 both Colorado and Kansas. In 2009 I was named to my current position in Kansas.

12 **Q. HAVE YOU EVER TESTIFIED BEFORE THE KANSAS CORPORATION**
13 **COMMISSION ("COMMISSION")?**

14 **A.** Yes. I filed written testimony in Docket No.10-ATMG-133-TAR.

15 **II. SUMMARY OF TESTIMONY**

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 **A.** My direct testimony has three purposes. First, I will provide an overview of Atmos' operations
18 in the United States and in particular, its operations in Kansas. Second, I will set forth the
19 principal factors requiring Atmos to file this rate application. Finally, I will introduce the other
20 witnesses who will be providing support for the proposed rate increase and tariff charges.

21 **III. OVERVIEW OF ATMOS' OPERATIONS**

22 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF ATMOS ENERGY'S CORPORATE**
23 **STRUCTURE.**

1 A. Atmos is the largest pure natural gas distribution company in the United States. Atmos
2 delivers natural gas to approximately 3.2 million residential, commercial, industrial and
3 public-authority customers in twelve states. Atmos has six unincorporated gas utility
4 operating divisions. The division offices are located in Denver, Colorado (Colorado/Kansas
5 division); Dallas, Texas (Mid-Tex division); Baton Rouge, Louisiana (Louisiana division);
6 Franklin, Tennessee and Owensboro, Kentucky (Kentucky/Mid-States division); Jackson,
7 Mississippi (Mississippi division); and Lubbock, Texas (West Texas division). In addition,
8 Atmos has an unincorporated operating division, Atmos Pipeline Texas, which is based in
9 Dallas and consists of an intrastate pipeline that operates only in Texas. Atmos' corporate
10 offices are located in Dallas, Texas.

11 **Q. CAN YOU PROVIDE THE COMMISSION WITH A GENERAL DESCRIPTION AND**
12 **BACKGROUND OF ATMOS' OPERATIONS IN KANSAS?**

13 A. Yes. Kansas is included in Atmos' Colorado/Kansas division, which provides natural gas
14 service to over 241,800 customers in 170 communities located in Colorado, Kansas and parts
15 of Missouri. Our division office is located in Denver, Colorado. Our regional offices are
16 located in Greeley, Colorado and Olathe, Kansas.

17 In Kansas, Atmos serves 106 communities and 2 unincorporated irrigation customers
18 in 32 counties. The communities are spread throughout the state, and include Olathe, Bonner
19 Springs, DeSoto and portions of Kansas City, Overland Park, Shawnee, Lenexa and Lawrence
20 in the Kansas City metropolitan area, Independence, Coffeyville and Yates Center in Southeast
21 Kansas, Council Grove and Herington in Central Kansas, Anthony and South Haven, near
22 Wichita, Ness City in Northwest Kansas and Ulysses and Johnson City in Southwest Kansas,
23 just to name a few.

1 Our customer base consists of approximately 117,352 residential customers, 9,925 commercial
2 customers, 21 industrial customers, 288 irrigation customers, and 319 transportation
3 customers. We have a Kansas-based work force of approximately 146 employees. Our utility
4 plant includes 4,753 miles of service lines, distribution and transmission lines. I have included
5 a map of Atmos' Kansas service territory as Exhibit BWA-1.

6 **IV. FACTORS REQUIRING ATMOS TO FILE THIS RATE APPLICATION**

7 **Q. WHAT ARE THE PRINCIPAL FACTORS REQUIRING ATMOS TO FILE THIS**
8 **RATE APPLICATION?**

9 **A.** Atmos is seeking approval of a rate increase of approximately \$6.0 million. The increase to
10 the bill of an average residential customer would be approximately \$4.18 per month. Although
11 Atmos operates very efficiently, we are not receiving a reasonable return on our investment
12 with the rates currently in effect. The proposed increase will allow Atmos to establish new
13 rates that will provide a reasonable return in order to attract the capital needed to make the
14 necessary additions, replacements and improvements to our distribution system in Kansas.
15 While Atmos makes every effort to control expenses, a portion of the requested increase is
16 necessary to cover increased costs for items such as salary and wage increases, increased
17 medical costs and higher pension benefits. Under current economic conditions, the Company is
18 facing an elevated cost of debt while it continues to increase investment in Kansas. We simply
19 cannot continue to absorb these higher costs given the current level of our investment while
20 margins continue to decline due to the reduction in customer usage.

21 **Q. WHEN WAS THE COMPANY'S LAST GENERAL RATE PROCEEDING IN**
22 **KANSAS?**

23 **A.** The Company's last rate proceeding concluded in 2008 with an increase to Company's rates of

1 \$2.1 million.

2 **Q. WHAT RATE OF RETURN ON RATE BASE IS ATMOS REQUESTING IN THIS**
3 **RATE APPLICATION?**

4 **A.** Atmos is asking the Commission to approve new rate schedules that would increase revenues
5 to provide an overall rate of return on rate base of 9.11% on the test year rate base of \$144.6
6 million.

7 **Q. IS ATMOS CURRENTLY EARNING A FAIR RETURN ON ITS KANSAS**
8 **OPERATIONS?**

9 **A.** Atmos is not achieving a fair return under the current rates based upon the revenues generated
10 during the test year (twelve months ending September 30, 2009) after those revenues and
11 Atmos' expenses have been normalized and adjusted for known and measurable changes.
12 Atmos' calculated rate of return on rate base is 6.60%.

13 **Q. WHAT IS THE RATE OF RETURN ON COMMON EQUITY AND RATE OF**
14 **RETURN ON RATE BASE REQUESTED IN THIS RATE APPLICATION?**

15 **A.** The requested rate of return on common equity in this case is 11.4%. The requested rate of
16 return on equity is 11.40%. Company witness Dr. William Avera will testify to the requested
17 rate of return on equity.

18 **Q. IS ATMOS REQUESTING ANY MATERIAL CHANGES TO ITS WEATHER**
19 **NORMALIZATION ADJUSTMENT (“WNA”) OR GAS SYSTEM RELIABILITY**
20 **SURCHARGE (“GSRS”) RIDERS?**

21 **A.** No. Atmos is not requesting any material changes to any of the Company's existing riders.
22 Atmos has included minor revisions to these tariffs that are “housekeeping” in nature. The
23 Company is proposing to roll the existing GSRS rates into the base rates established in this

1 proceeding.

2 ***V. INTRODUCTION OF WITNESSES***

3 **Q. PLEASE INTRODUCE THE OTHER WITNESSES SPONSORING TESTIMONY IN**
4 **THIS PROCEEDING AND BRIEFLY SUMMARIZE THEIR TESTIMONY.**

5 **A.** In addition to my testimony, Atmos will present the direct testimony and exhibits of six
6 witnesses.

7 Mr. Joe Christian, Director of Rates and Regulatory Affairs, Atmos Energy Corporation,
8 Dallas Texas, addresses the Company's revenue requirements, billing determinants,
9 adjustments to Ad Valorem Taxes, and the rate design requested in this case;

10 Mr. Thomas H. Peterson, Rates Director, Atmos Energy Corporation, Dallas, Texas, is
11 sponsoring the calculations of rate base and depreciation expenses as well as the Company's
12 Class Cost Allocation Study;

13 Mr. John Johnson, Senior Rate Analyst, Atmos Energy Corporation, Dallas, Texas, discusses
14 Operating and Maintenance ("O&M") adjustments as well as adjustments made to Taxes Other
15 than Income Taxes;

16 Mr. Robert Smith, Atmos' Assistant Treasurer testifies on the appropriate capital structure and
17 cost of debt for the purpose of setting rates in this docket;

18 Dr. William Avera testifies regarding a reasonable cost of equity and the overall cost of capital
19 to be used in setting rates for Atmos; and

20 Mr. Daniel Meziere, Director of Accounting Services for Atmos, sponsors Atmos' books and
21 records and Atmos' Cost Allocation Manual ("CAM");

1 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

2 **A.** Yes. It is my opinion that the rates requested in this filing are just, reasonable, and in the
3 public interest and would encourage the Commission to provide prompt and adequate rate
4 relief.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.** Yes.

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VERIFICATION

STATE OF KANSAS)
) ss
COUNTY OF JOHNSON)

Barton W. Armstrong, being duly sworn upon his oath, deposes and states that he is the Vice President of Operations of Colorado/Kansas Division; 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.

Barton W. Armstrong
Barton W. Armstrong

Subscribed and sworn before me this 20th day of January, 2010.

Nancy Landers
Notary Public

My appointment expires: 08-06-10

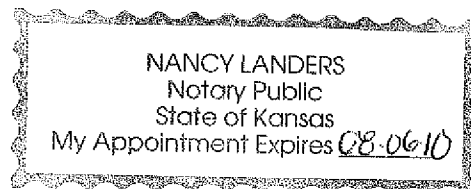
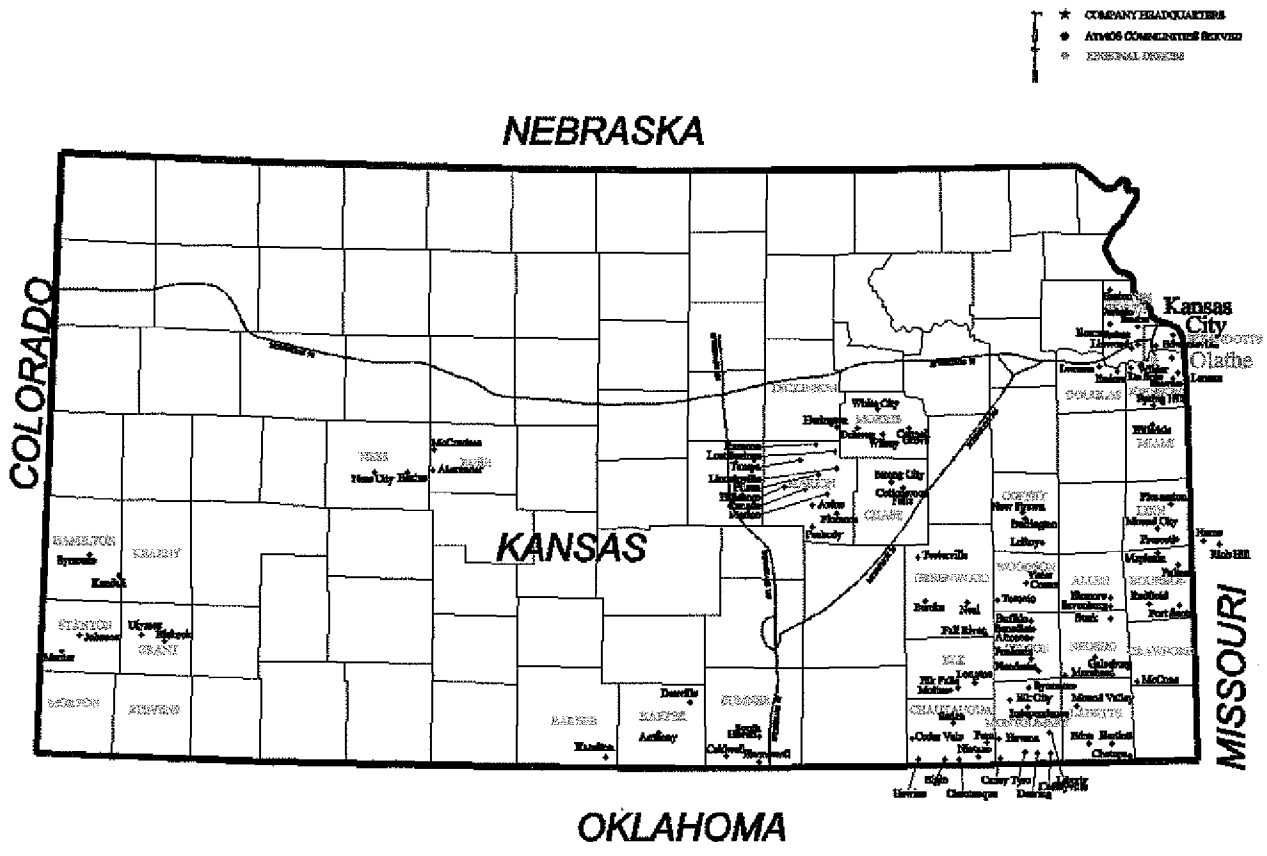


Exhibit BWA-1

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