BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of Atmos Energy's Compliance Filing of its Accelerated Pipe Replacement Plan Pursuant to Docket No. 15-GIMG-343-GIG	)))	Docket No. 18-ATMG-316-CPL

SUBMITTAL OF PLAN OF ATMOS ENERGY CORPORATION FOR THE SYSTEMATIC ACCELERATED REPLACEMENT OF BARE STEEL SERVICE/YARD LINES AND BARE STEEL MAINS WITHIN CLASS 3 LOCATIONS/URBAN AREAS

Pursuant to Ordering Paragraph A of the Kansas Corporation Commission's ("KCC" or "Commission") Final Order, issued in Docket No. 15-GIMG-343-GIG ("343 Docket") on September 12, 2017, Atmos Energy Corporation ("Atmos Energy" or "Company") respectfully submits its Plan for the Systematic Accelerated Replacement of Bare Steel Service/Yard Lines and Bare Steel Mains within class 3 locations/urban areas ("Plan") attached hereto as Exhibit "A" and in support states as follows:

1. Atmos Energy has historically and continues to replace obsolete infrastructure as part of the normal course of business, while at the same time recognizes the importance of accelerating this replacement beyond required levels to benefit our customers through the enhanced safety and reliability of our system. Over the past decade in Kansas, Atmos Energy has been investing in its infrastructure by replacing bare steel mains and service lines and has recovered its costs through general rate cases as well as utilizing the provisions of the Gas Safety and Reliability Policy Act of 2006 to the greatest extent possible to achieve that goal.

2. The attached Plan addresses how the Company plans to engage in a systematic acceleration of the replacement of bare steel mains in urban areas and all bare steel service lines over

an anticipated period of 35 years, subject to the cost recovery plan described therein.[1]

3. While this Plan is a step forward in addressing the aging infrastructure in Kansas, Atmos Energy remains steadfast in its commitment to the safety of our customers and looks forward to continuing to work with the Commission to expand the systematic replacement described in the attached Plan to include replacement of additional obsolete materials in both urban and rural areas across Kansas and to develop the rate recovery necessary to support that investment.

Respectfully submitted, this the 24th day of April, 2018.

ATMOS ENERGY CORPORATION

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[1]This is essentially the same time frame proposed by Atmos Energy to replace all obsolete materials on its system supported by the System Integrity Program ("SIP") mechanism proposed by the Company and will be possible only because of the narrower definition of materials to be replaced (bare steel mains in urban areas and bare steel service lines) defined by the Commission in its Final Order and if supported by effective cost-recovery.

VERIFICATION

STATE OF KANSAS)
)ss:
COUNTY OF FRANKLIN)

James G. Flaherty, of lawful age, being first duly sworn on oath, states:

That he is the attorney for Atmos Energy Corporation, named in the foregoing Compliance Filing, and is duly authorized to make this affidavit; that he has read the foregoing Compliance Filing, and knows the contents thereof; and that the facts set forth therein are true and correct.

James G. Flaherty

SUBSCRIBED AND SWORN to before me this 24th day of April, 2018.

NOTARY PUBLIC - State of Kansas
RONDA ROSSMAN
My Appt. Exp. 5/25/2018

Notary Public

Appointment/Commission Expires:

CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via U. S. Mail, postage prepaid, hand-delivery, or electronically, this 24th day of April, 2018, addressed to:

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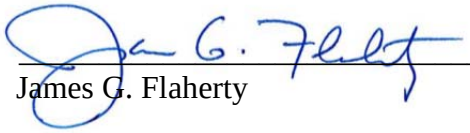


James G. Flaherty

PLAN OF ATMOS ENERGY CORPORATION FOR THE SYSTEMATIC ACCELERATED REPLACEMENT OF BARE STEEL SERVICE/YARD LINES AND BARE STEEL MAINS WITHIN CLASS 3 LOCATIONS/URBAN AREAS

Introduction

Atmos Energy takes the safety of its pipeline system seriously. When a natural gas pipeline fails, the repercussions can be catastrophic. Federal and state regulations have been passed to propel pipeline operators to better understand the condition of their assets. This process assists operators to understand risks on their system and to take appropriate steps to repair or replace pipelines proactively. Balancing safety and cost is important. To that end, Atmos Energy carefully monitors its system, devotes additional resources as necessary and accelerates work when appropriate. This includes the replacement of pipelines made of materials prone to leaks and potential failure. This approach is intended to proactively protect our customers and the public in general and permits Atmos Energy to monitor and inspect its system and renew pipe when needed, rather than doing so reactively.

Given the age of some of the Company's pipelines, along with the increased expectations and requirements at the federal and state level, Atmos Energy appreciates the efforts of the Kansas Corporation Commission ("Commission") and the Kansas Legislature to encourage utilities to implement and fund new programs that will improve the safety and reliability of their natural gas infrastructure. To that end, Atmos Energy has been investing in infrastructure replacement through the capital investment recovered through its base rates and through fully utilizing the GSRS mechanism to address reactive facilities replacement in accordance with the statutory limitations on the use of that mechanism.

Atmos Energy is committed to executing the plan contained herein, in which the Company

expects to replace bare steel mains in class 3 locations (urban areas) and all bare steel service lines within 35 years. In today's dollars, current estimates project these costs to total between $320 million and $375 million. The Company would recover costs associated with these investments through the GSRS mechanism and base rate cases unless a viable alternative recovery mechanism is established. Atmos Energy also looks forward to continuing to work with the Commission to develop a broader plan to include replacement of other materials in its infrastructure that pose risk such as early generation plastic pipe, along with the appropriate cost recovery solution that will enable such investment for the safety of its customers.

Accelerated Replacement Plan

Within Class 3 locations (which includes the urban areas which Atmos Energy serves), Atmos Energy has currently identified approximately 596 miles of bare steel main and approximately 28,000 bare steel service lines in its Kansas gas distribution system that meet the materials criteria in the Commission's Order in the 343 Docket.[1] The Company has no known quantities of cast iron main. The bare steel mains in urban areas are located in 87 cities. Using the historic replacement rate of bare steel pipe of approximately eight miles per year as identified in the direct testimony of Mr. Christian Paige, it would take approximately 73 years to replace the bare steel main in urban areas and all bare steel service lines included in this plan.

Atmos Energy has historically and continues to replace obsolete infrastructure as part of the normal course of business and has accelerated the pace of such replacement in recent years; however, the Company recognizes the need to further accelerate its replacement activities and has proposed multiple methods, including one in the 343 Docket, to accomplish this goal. To achieve

[1]This compares to approximately 1,500 total miles of mains and approximately 61,000 service lines made of obsolete materials identified by Atmos Energy witness Paige in the 343 Docket.

this, the Company plans to engage in a systematic acceleration of the replacement of bare steel mains in urban areas and all bare steel service lines over an anticipated period of 35 years, subject to the cost recovery plan described below.[2] This schedule results in an acceleration of the timeline for replacement of these materials by more than 50% from historic levels.

The 596 miles of bare steel main in urban areas have been grouped into 144 distinct replacement areas across its Kansas operations. The mains and services within these areas will be prioritized based on a number of factors, some of which include:

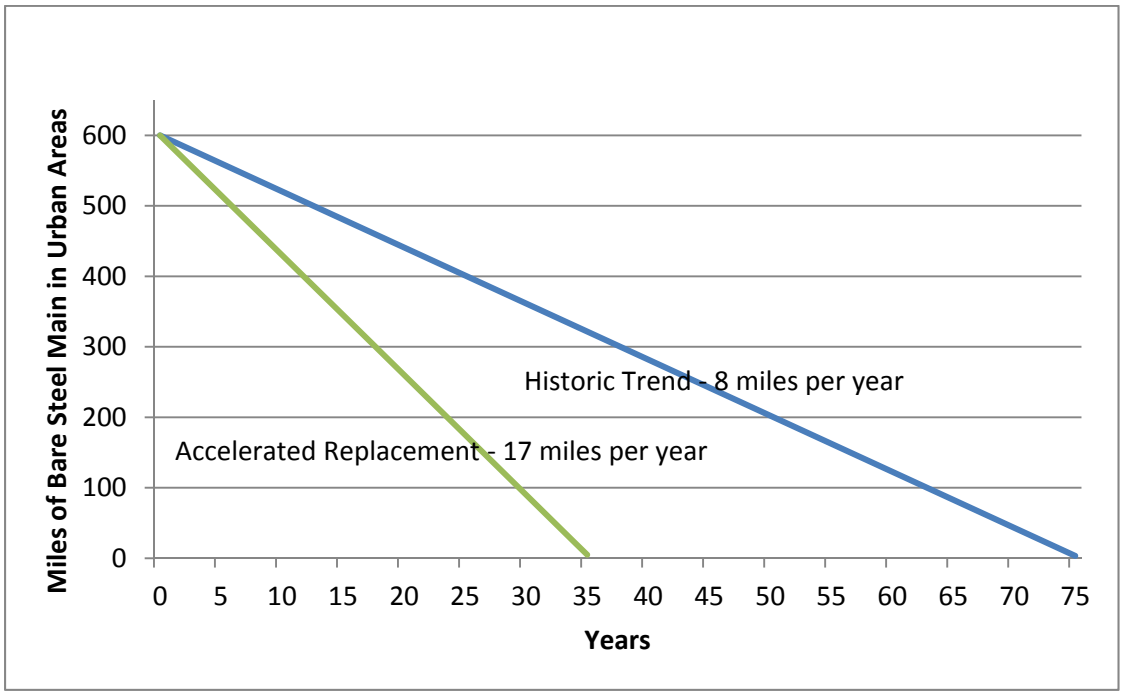
- Leak history (per mile of main)
- Ground cover
- Maximum operating pressure
- Critical customers
- Average leak response time
- Pipeline location
- Population density
- Public improvements
- Subject Matter Expert (SME) input

The Company's plan to replace bare steel mains in urban areas and all bare steel service lines over 35 years results in an average replacement rate of 17 miles per year. This is an average replacement rate and could be impacted on a yearly basis by project scope (pipe size, city requirements, construction conditions, etc.), contractor availability, funding availability, and/or other unforeseeable circumstances. The chart below illustrates the average trajectory of replacement historically and the anticipated replacement rate to be achieved through this plan.

[2]This is essentially the same time frame proposed by Atmos Energy to replace all obsolete materials on its system supported by the System Integrity Program ("SIP") mechanism proposed by the Company and will be possible only because of the narrower definition of materials to be replaced (bare steel mains in urban areas and bare steel service lines) defined by the Commission in its Final Order and if supported by effective cost-recovery.

Exhibit A

Accelerated Replacement of Bare Steel in Urban Areas



The Company plans to begin the systematic acceleration of the replacement of bare steel mains and service lines January 1, 2019 to allow sufficient lead time to engineer and design projects, procure appropriate construction contractors, obtain the necessary permits and locates, and notify cities and customers of upcoming projects. The initial report submitted by April 1, 2019, will provide the baseline of identified bare steel mains in urban areas and all bare steel service lines.

Projected Costs of Accelerated Replacement in This Plan

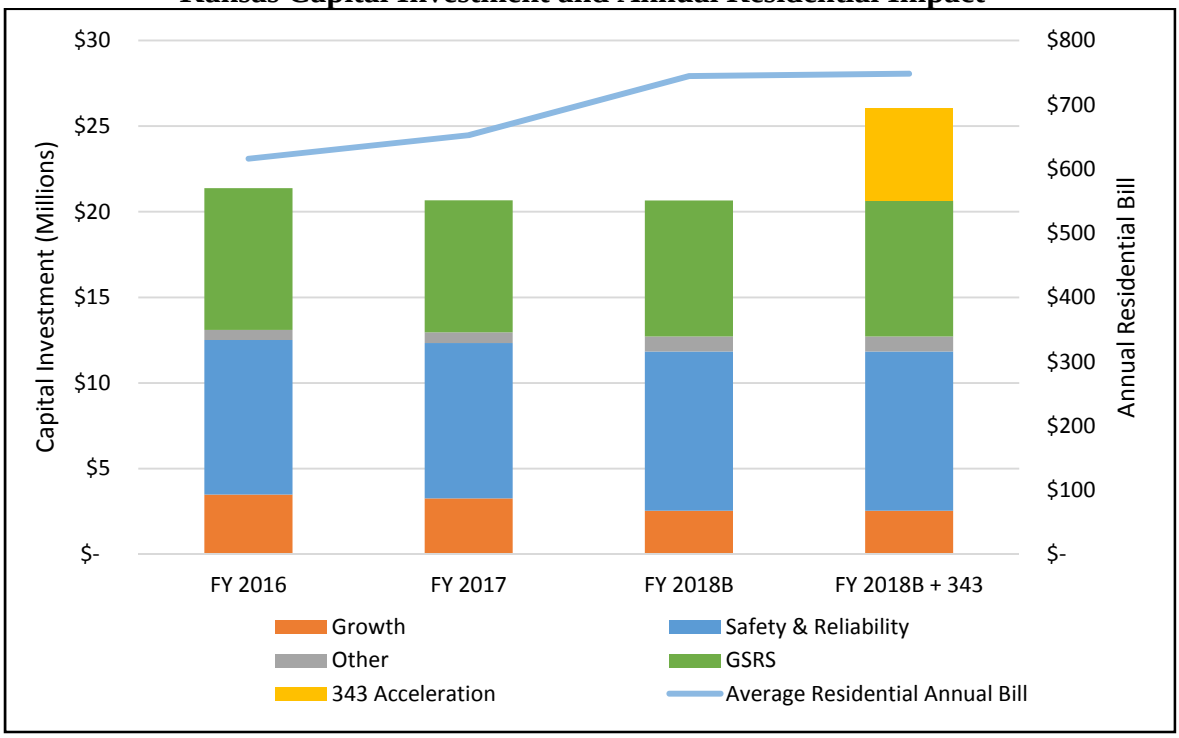
The Company estimates that the total cost to replace the currently identified bare steel main in urban areas and all bare steel service lines will be between approximately $320 million and $375 million (in 2018 dollars, uninflated) based on current construction costs. The total cost of replacement over the life of the plan may vary due to increases in the cost of labor, construction conditions, material costs, inflation, and changing regulatory requirements. The Company estimates that the average 2018 construction cost per mile is approximately $525,000 and the average service

line replacement is approximately $1,400. This results in an average capital investment of $9-12 million per year, in 2018 expected costs, to replace bare steel in urban areas. The cost recovery of this investment is described below.

Customer Impact

As noted earlier, the Company plans to implement the systematic accelerated replacement described herein beginning in January 2019. At that time, the Company will increase its current level of capital expenditures by approximately $5 million per year to accelerate the replacement of bare steel main in urban areas and bare steel services. Utilizing the increased GSRS cap, the Company anticipates an incremental annual impact to residential customers of approximately $3.60 each year during the course of the replacement period.

Kansas Capital Investment and Annual Residential Impact*



* Includes gas costs

Cost Recovery

Current Plan for Cost Recovery of Bare Steel Replacement Investment

The viable vehicles available at this time to the Company to recover the costs associated with this Plan are the GSRS, traditional rate case filings, and abbreviated rate proceedings (to the extent permitted by the Commission). Atmos Energy has been fully utilizing the GSRS mechanism to address reactive facilities replacement in accordance with the statutory limitations on the use of that mechanism. On April 5, 2018, Senate Bill 279 was signed into law, which expands those limitations such that Atmos Energy may expand its level of investment for recovery through that mechanism.

For the past several years, Atmos Energy has been investing an average of $7 million per year in the safety and reliability of its system beyond what could previously have been recovered through GSRS. That investment has resulted in frequent rate cases in the recent past, and the Company expects that trend to continue, even with the assistance provided by Senate Bill 279. While the Company is committed to continuing its accelerated replacement program, Atmos Energy points out that this recovery plan may require the Company to file annual general or abbreviated rate cases and incur rate case expenses that will be passed along to customers. It will also involve rolling "normal" capital expenditures as well as any increases in O&M costs into customer rates on a more frequent basis.

Accelerated Replacement Program

While Atmos Energy appreciates the Commission’s recognition of the need for an

alternative recovery mechanism for recovery of the costs of accelerated replacement programs, the Accelerated Replacement Plan ("ARP") with the provisions proposed by the Commission in the 343 Docket is not a viable mechanism for Atmos Energy. The primary provisions of the ARP that eliminate it as an option for the Company is the requirement for a commitment to replace all bare steel mains in urban areas and all bare steel service lines on the Atmos Energy system over a ten-year period with a $0.40 per month cap on the rate impact of that investment. These requirements of the ARP render it ineffective for three primary reasons:

1. The compressed ten-year replacement timeline would result in a strain on the availability of resources necessary for accelerated replacement, including the ability to obtain enough qualified contractors and construction crews at reasonable rates, which would likely make the number and scope of projects required difficult.
2. Adding to the likely infeasibility, the ten-year replacement period of the ARP would result in disruption of roads, facilities, and surrounding communities because of the amount of construction that would be required within the compressed time frame. These disruptions would not promote the public interest. The relationship with local governments and residents would be strained due to the interference with the use of roads, the impact of obtaining necessary local construction and other permits, the availability of local and state inspectors to review the level of construction, and the increase in locates for underground facilities.
3. Even assuming that a ten-year replacement plan were physically and logistically feasible, the cap on ARP recovery of $0.40 per customer per month is insufficient to recover the costs of a plan within that compressed timeframe. That level of recovery, which is the same as the original statutory cap on the GSRS mechanism, would only support an approximate annual

incremental investment of $7.5 million for Atmos Energy. Utilizing the most conservative projected cost set forth above for Atmos Energy's plan to accelerate bare steel main and service line replacement of approximately $320 million, the average annual capital investment associated with a ten year replacement plan would be approximately $32 million a year. Thus, the ARP would only provide cost recovery for approximately 22% of the annual investment necessary to replace bare steel mains in urban areas and bare steel service lines over a ten-year period.

Additional provisions further render the ARP incompatible with the level of investment the Commission contemplates in its Order. The Commission's Order states that "the ARP will only apply to expenditures for replacement of obsolete infrastructure over and above each of the Gas Utilities' current amount of replacement expenditures," which the Commission defines as "their average replacement expenditures from the year 2014, 2015, and 2016." In recent years, Atmos Energy has been proactively investing incrementally an annual average of approximately $7 million in replacing its infrastructure in addition to the investment that qualifies for recovery through the GSRS. Atmos Energy would not begin to recover those costs until rates would be adjusted in a general rate case. As Staff witness Grady testified in the 343 docket, it is this investment that has been driving Atmos Energy to file rate cases on almost an annual basis. If this investment is not recoverable through the ARP, then Atmos Energy would need to continue to file frequent rate cases, for which it would be penalized if it chooses to use the ARP mechanism as proposed. This problem would be exacerbated by the $0.40 per month cap on the rate impact of the investment contemplated in the Commission's Order, which equates to only $7.5 million of additional investment by Atmos Energy. Since a much higher level of investment would be required by the Order, the Company

would be investing much more with general rate cases and abbreviated rate proceedings as the only option for recovery. Rate cases involve considerable expense and regulatory lag and would not allow Atmos Energy an adequate opportunity to earn a reasonable return if investment were increased to levels to comply with the ten-year replacement deadline.[3]

Continued Exploration of Alternative Recovery Mechanisms

While this Plan is a step forward in addressing the aging infrastructure in Kansas, Atmos Energy remains steadfast in its commitment to the safety of our customers and looks forward to continuing to work with the Commission to expand the systematic replacement described herein to include replacement of additional obsolete materials in both urban and rural areas across Kansas as well as develop approaches for the rate recovery mechanisms necessary to support that investment. The emphasis on safety and associated increased levels of capital investment extends to all of the eight states in which Atmos Energy operates, and the Company has significant experience in the implementation of alternative rate mechanisms associated with such system integrity programs that have led to the programs' success.[4]

The most successful system integrity programs in Atmos Energy's footprint have several key common features:

- High level of transparency and regulatory oversight through frequent filings that provide detailed information on planned investment;

3 For more information on the reasons it is in the public interest to avoid more frequent general rate case filings, see the Direct Testimony of Justin Grady on behalf of the Commission Staff in Docket 15-GIMG-343-GIG.

4 Atmos Energy has separate system integrity/pipeline replacement programs in Colorado, Kentucky, Mississippi, Texas, and Virginia that allow for concurrent recovery of investments at the time in which they are made (without regulatory lag). In addition, in Louisiana and Tennessee, the Company has annual rate mechanisms through which essentially all of its capital investments are recovered.

- Opportunity for regulators to review and approve system integrity capital expenditures *before the investment is made* so that the Company only proceeds with approved projects and balances the need for investment with the need for affordability of rates for its customers;
- Flexibility in the types of projects that are included in the program so that the utility may propose projects based on a prioritization plan involving many factors to maximize the benefits for customers of the dollars spent in the program;
- Opportunity for recovery of and on the utility's safety-related investment in a timely manner so that the utility has access to the capital necessary to engage in the level of discretionary investment needed in the program.[5]

The modified System Integrity Program ("SIP") agreed upon by the Staff, CURB, and the LDC's in the 343 docket serves as an example of an approach that is a step towards achieving some of the same features of Atmos Energy's most successful safety-related investment programs. This table provides an illustration of incremental ways to modify the provisions of the ARP in order to make it useful (and usable) in supporting system refurbishment efforts by Atmos Energy and other Kansas local distribution companies.

5 For example, in the first three years, Mississippi's program (which has all of these features) has resulted in a total number of transmission and distribution line miles replaced of 28.84 in 2015, 44.67 in 2016, and 57.4 in 2017.

Policy Goal/Provision	**ARP**	**Modified SIP**[6]
Limited time period to allow evaluation of effectiveness	4-year pilot	5-year pilot
Cap on expenditures to balance safety with affordability	$0.40 cap (equivalent to $7.5 million investment annually)	$75 million over 5 years (average of $15 million annually)
Transparency and Opportunity for Commission Oversight	10-year plan containing the goals, objectives, and capital expenditures; annual filings for review and approval	5-year plan containing the same or similar information; semi-annual filings for review and approval
Types of Investment Allowed	Bare steel service lines and bare steel mains in Class 3 Locations; only incremental investment based on a 2014-2016 baseline	Discretionary replacement of any obsolete materials determined by Atmos Energy through a risk based method of prioritization
Reduction of Frequency of Rate Case Filings	Penalties for filing a rate case within 4 years	3-year moratorium on general rate increases (subject to the availability of abbreviated rate case filings if needed to sustain reasonable levels of utility return on investment)
Timeline for replacement	10 year fixed	Flexible accelerated timeline based on LDC specific system requirements and risk assessment

Atmos Energy remains committed to work with the Commission to explore additional cost recovery options to strike the appropriate balance between the pace of the replacement program and the cost recovery associated with it.

Reporting and Compliance

Leak Detection Surveys

Federal guidelines (CFR 192.723) require gas utilities to conduct leakage surveys on a period frequency based on material type and location. Atmos Energy commits to increase the leak

6 For a more detailed explanation of these provisions and the policy reasons supporting same, see the Direct Testimonies of Justin Grady and Leo Haynos on behalf of the Commission Staff in Docket 15-GIMG-343-GIG.

survey frequency of obsolete plastic pipe from a 5 year frequency to a 3 year frequency, beginning in 2019. The Company will complete 1/3 of the total obsolete plastic inventory each year for the next 3 years.

L&U Report

Atmos Energy submits to the Commission a total L&U for the state of Kansas. Beginning in 2019, the Company will additionally submit the L&U for cities with more than 10,000 customers. For Atmos Energy, this includes piping in Johnson County that is connected to the Olathe system. The Company cautions against the over-reliance on the use of L&U as a significant determinant in measuring the effectiveness of a pipe replacement plan. There are many factors that contribute to L&U including measurement, third-party damage, billing errors, leakage and the timing of billing and consumption.

Reporting

The Company will file by April 1 each year a report that will update the Commission on the progress made on the replacement of bare steel mains and services including the mileage of main replaced by material broken down into class locations. The Company will also provide a summary of each completed accelerated replacement project, including quantity of mains and services replaced and total costs, similar to the GSRS filing. Around the same time, the Company will also meet with KCC Staff and CURB to discuss the annual report.

Conclusion

Atmos Energy respectfully submits its plan for the accelerated replacement of bare steel

mains in urban areas and all bare steel service lines as directed by the Commission in its Final Order in the 343 Docket and provides the attendant comments reflected herein in an effort to ensure that the Commission is informed of the practical and operational realities associated with such plan as it will impact the Commission and Atmos Energy.