

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

JAN 26 2012

by
State Corporation Commission
of Kansas

IN THE MATTER OF THE APPLICATION) Docket No.
OF ATMOS ENERGY CORPORATION)
FOR REVIEW AND ADJUSTMENT OF ITS)
NATURAL GAS RATES) 12-ATMG-564-RTS

DIRECT TESTIMONY OF

JASON L. SCHNEIDER

FOR ATMOS ENERGY CORPORATION

I. INTRODUCTION

1

2 Q. PLEASE STATE YOUR NAME, JOB TITLE AND BUSINESS ADDRESS.

3 A. My name is Jason L. Schneider. My business address is 5430 LBJ Freeway, Suite 600, Dallas,
4 Texas 75240.

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am the Director of Accounting Services for Atmos Energy Corporation ("Atmos" or the
7 "Company").

8 Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

9 A. I am primarily responsible for directing various accounting activities and policies within the
10 Company. My primary duties include the oversight of general accounting, fixed assets
11 accounting, accounts payable, payroll, and cost allocations. I also serve on an internal
12 committee which is responsible for the oversight and monitoring of Sarbanes-Oxley ("SOX")
13 compliance. In addition, I work with both our internal and external auditors on implementing,

1 testing, maintaining and modifying the Company's accounting controls, as well as interfacing
2 between the auditors and the Company.

3 I am also responsible for ensuring effective financial and internal controls for the
4 Company's accounting processes, system and procedures. I have knowledge of the
5 Company's accounting activities, which include compiling, processing, reporting and
6 analyzing financial information to satisfy the requirements of internal management, internal
7 auditors, external independent auditors and regulatory agencies.

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
9 **PROFESSIONAL EXPERIENCE.**

10 A. I received a Bachelor of Science degree in Accounting Control Systems from the University of
11 North Texas in 2000. I also received a Master of Business Administration degree in
12 Accounting from the University of North Texas in 2003.

13 I have worked in various industries for over 14 years in a variety of accounting/finance
14 staff and management roles. I have worked in the energy industry for over 7 years in a various
15 accounting and finance positions. I joined Atmos Energy Corporation in 2004 in the Plant
16 Accounting group and assumed my current role in March 2011. Before assuming my current
17 role, I was the Manager of Plant Accounting and reported directly to the previous Director of
18 Accounting Services. In addition to my other duties as Manager of Plant Accounting, I
19 worked closely with Director of Accounting Services in maintaining the CAM (Cost
20 Allocation Manual) to ensure it was aligned with Atmos' recordkeeping practices.

21 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

22 A. Yes. I am licensed by the State of Texas as a Certified Public Accountant ("CPA").

23 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION OR OTHER**

1 Atmos' accounting organization utilizes integrated computerized business systems to
2 efficiently process, record and maintain transactions generated in the regular course of
3 business. Financial transactions are created and entered into the system at or near the time of
4 the transaction by personnel having personal knowledge, or acting in reliance on information
5 transmitted by persons having personal knowledge, of the transactions as well as the
6 applicable accounting procedures and requirements.

7 **Q. AS DIRECTOR OF ACCOUNTING SERVICES, HOW DO YOU ASSURE**
8 **YOURSELF THAT TRANSACTIONS ARE RECORDED PROPERLY?**

9 A. As Director of Accounting Services, I have personal knowledge of the organizational business
10 processes and staffing in the Controllershship function. The Controller's organization is staffed
11 with highly qualified accounting managers and staff, with many accounting positions filled by
12 CPAs. The managers in the organization are charged with the responsibility to inspect,
13 review, and revise, if appropriate, the work of the accountants they supervise. We have
14 established and maintained controls that ensure the accuracy of our books and records. These
15 controls help identify any necessary adjustments to accounting entries which are then recorded
16 to the original books and records. Additionally, Atmos contracts with KPMG for internal
17 audit services and this group periodically performs reviews of those controls.

18 **Q. ARE THE COSTS RECORDED ON THE COMPANY'S BOOKS AND RECORDS**
19 **SUPPORTED BY UNDERLYING INVOICES OR OTHER RECORDS?**

20 A. Yes. In order for an item to be recorded in the Company's general ledger, there must be an
21 invoice or other underlying supporting documentation. The former, for example, may be in
22 the form of a billing invoice received from a vendor. The latter, for example, may be in the
23 form of an employee's timesheet. The manager of a specific cost center or project is

1 responsible for reviewing, coding and approving invoices or other underlying supporting
2 documentation that are charged to that particular manager's cost center or project.

3 **Q. WHAT DO YOU MEAN BY COST CENTERS?**

4 A. As described in the Company's CAM, a cost center is a designation generally utilized for the
5 assignment of departmental cost responsibility and internal management reporting.
6 Employees with responsibility for these functional areas are delegated a certain level of
7 authority to conduct the business of the Company.

8 **Q. HOW ARE THESE AUTHORITY LEVELS DETERMINED OR DELEGATED**
9 **WITHIN THE COMPANY?**

10 A. The Board of Directors initially delegates authority to the chief executive officer of the
11 Company who then authorizes the Controller to further delegate authority to others throughout
12 the Company as necessary. The Controller's approval of authority limits is generally based on
13 a review of the needs and recommendations from those requesting authority limit changes.
14 Approved authority limits are maintained in a secure table within the Company's accounting
15 system.

16 **Q. DOES THE COMPANY HAVE IN PLACE ANY PROCESS OR SYSTEM FOR THE**
17 **REVIEW AND VALIDATION OF INVOICES?**

18 A. Yes. Most invoices are scanned into an accounts payable processing system called
19 "Markview" when they are received by the Company. Once scanned, an image of the invoice
20 is routed electronically to the appropriate cost center owner. The cost center owner reviews
21 and electronically codes and approves the invoice within the established approval hierarchy.
22 As a part of this process, the cost center owner is responsible for ensuring the cost is valid, just
23 and reasonable. If the amount of the invoice exceeds the authority limit of the initial approver,

1 it is automatically escalated through the approval hierarchy to a person with the appropriate
2 level of authority. A similar review process is performed at each level within the approval
3 hierarchy. Once final approval has been obtained, the invoice is submitted to the accounts
4 payable department for final payment.

5 **Q. DOES THE COMPANY HAVE IN PLACE ANY PROCESS OR SYSTEM FOR THE**
6 **REVIEW AND VALIDATION OF COSTS THAT ARE NOT PROCESSED THROUGH**
7 **MARKVIEW?**

8 A. Yes. Certain invoices and other requests for payment that are not presented as an invoice are
9 processed outside of Markview. Examples of these types of documents include, but are not
10 limited to tax returns, contracts for certain outside services or certain wire transfer requests.
11 The process for the review, coding and approval of these costs is the same, except that the
12 process may be manual in nature rather than electronic. The Company employee in charge of
13 this documentation is responsible for ensuring the cost is valid, just and reasonable. Coding
14 and approvals are performed within the approval hierarchy. Once final approval has been
15 obtained, the documentation is submitted to the accounts payable department for final
16 payment.

17 **Q. ARE THERE ANY OTHER ACCOUNTING CONTROLS OR PROCESSES IN PLACE**
18 **TO ENSURE THE ACCURACY OF THE COMPANY'S BOOKS AND RECORDS?**

19 A. Yes. The Company executes a series of detective monitoring controls designed to identify and
20 explain material and/or unusual costs that have been recorded in the general ledger.
21 Occasionally, errors are found and they are typically corrected in the following month's
22 reporting period, unless they are material. If material, these errors are corrected in the current
23 month.

1 Additionally, the Chief Executive Officer and Chief Financial Officer must certify the
2 Company's annual and quarterly financial statements and must attest to and report on the
3 Company's system of internal control. To facilitate this effort, the Company outsources its
4 internal audit function to a Big Four accounting firm to conduct tests of the Company's system
5 of internal control. These tests are developed to ensure the system of internal control has been
6 designed effectively and that the controls are functioning as designed as of the end of the
7 Company's fiscal year.

8 **Q. PLEASE DESCRIBE THE PROCESS USED TO TEST INTERNAL CONTROLS.**

9 A. The Company maintains a SOX steering committee, which is responsible for the oversight and
10 monitoring of Sarbanes-Oxley compliance. This committee is comprised of myself, the Vice
11 President and Controller, the Director of Financial Reporting, the Director of Information
12 Technology and the Vice President and Controller for the Company's non-regulated activities.

13 During the first quarter of the fiscal year, the Director of Financial Reporting and I
14 meet with the internal auditors to review our listing of key controls to assess whether changes
15 to that list should be made based upon changes in the risk profile or organization of the
16 company. A key control is defined as a control necessary to mitigate the risks and ensure
17 financial reporting is reasonable and materially correct.

18 The internal audit group will develop a testing plan based upon these key controls,
19 which is reviewed and approved by the SOX steering committee. The key controls are tested
20 throughout the year. If issues arise, they are individually addressed by a steering committee
21 member who has knowledge of the affected areas. The SOX steering committee meets
22 regularly to assess the progress and review the results of the testing. During this process, all
23 findings are discussed and the steering committee will determine whether the finding should

1 be considered a control deficiency, a significant deficiency or a material weakness. A control
2 deficiency exists when the design or operation of a control does not allow management or
3 employees to prevent or detect misstatements in financial reporting on a timely basis. A
4 significant deficiency is a control deficiency which adversely affects the Company's ability to
5 report external financial data reliably, with more than a remote likelihood that an
6 inconsequential misstatement of the Company's financial statements will not be prevented or
7 detected. A material weakness is a significant deficiency that results in more than a remote
8 likelihood that a material misstatement of the financial statements will not be prevented or
9 detected.

10 At the end of the fiscal year, the steering committee makes recommendations regarding
11 the effectiveness of the Company's internal control structure to be included in the internal
12 auditor's final report to the audit committee.

13 **Q. PLEASE SUMMARIZE THE RESULTS OF TESTING FOR THE MOST RECENTLY**
14 **COMPLETED FISCAL YEAR.**

15 A. The most recent fiscal year available is fiscal 2011. A total of 211 key controls related to the
16 Company's natural gas distribution operations were tested by KPMG. We identified 2
17 deficiencies. No significant deficiencies or material weaknesses were identified.

18 **Q. ARE THE COMPANY'S TESTS OF INTERNAL CONTROL SUBJECT TO**
19 **EXAMINATION BY AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING**
20 **FIRM?**

21 A. Yes. As a publicly traded company, Atmos is required to have an independent registered
22 public accounting firm audit management's public assertions regarding the Company's system
23 of internal control. Ernst & Young, LLP ("EY") serves as the Company's independent

1 registered public accounting firm.

2 **Q. CAN YOU SUMMARIZE THE PROCESS USED BY EY TO PERFORM ITS ATTEST**
3 **FUNCTION?**

4 A. Yes. EY will perform independent tests regarding the design of the Company's internal
5 control function and the effectiveness of the controls as of the end of the fiscal year. They will
6 rely, in part, on the work performed by the internal auditors in completing their audit
7 procedures. Upon completion of their work, EY will issue an audit report summarizing their
8 findings, which is included in the Company's annual report on Form 10-K.

9 **Q. DID EY'S MOST RECENT REPORT DIFFER FROM THE FINDINGS OF**
10 **MANAGEMENT?**

11 A. No. EY issued an unqualified audit report for fiscal 2011, which means that they agreed with
12 management's assertions.

13 **Q. ARE THERE OTHER TYPES OF REGULAR AUDITS AND REVIEWS THAT ARE**
14 **CONDUCTED OF ATMOS'S BOOKS AND RECORDS?**

15 A. In addition to the audit of internal control, EY also conducts an annual audit of Atmos' books
16 and records. In addition, EY performs reviews of Atmos' quarterly financial statements.
17 These audits and reviews are conducted in accordance with the standards of the Public
18 Company Accounting Oversight Board (United States).

19 **Q. HOW DOES THE ACCOUNTING SYSTEM ALLOW FOR THE SEPARATE**
20 **RECORDING AND TRACKING OF COSTS FOR ATMOS'S UTILITY DIVISIONS?**

21 A. Direct costs are charged directly to the natural gas distribution division which has incurred the
22 costs. In addition, technical and support services are provided to the distribution divisions by
23 centralized shared services departments primarily located at the Atmos headquarters in Dallas.

1 **Q. ARE THE ALLOCATIONS DESCRIBED IN THE CAM USED IN EVERY**
2 **JURISDICTION IN WHICH ATMOS OPERATES?**

3 A. Yes. The CAM is uniformly applied in all twelve states in which Atmos has regulated utility
4 operations for allocation of common costs among Atmos' various operating divisions,
5 including Kansas.

6 **Q. DOES THE CAM DESCRIBE ALLOCATIONS OF BALANCE SHEET AMOUNTS?**

7 A. No. The CAM describes how to allocate expense items from Atmos' income statement.
8 Investment or balance sheet items are not allocated within Atmos' books and records.
9 Investment amounts are allocated only for ratemaking purposes in the context of a rate filing
10 or certain regulatory reports. Company witness Robert Hassen is providing testimony in this
11 filing concerning the allocation of rate base amounts.

12 **Q. IN YOUR OPINION, DOES THE COMPANY'S ALLOCATION PROCESS**
13 **UNIFORMLY AND CONSISTENTLY ALLOCATE COMMON OR SHARED**
14 **SERVICES COSTS?**

15 A. Yes, the allocation process described in the CAM operates fairly and reasonably in allocating
16 those costs on a uniform basis, both as between Atmos' various operating divisions and
17 affiliates and between the various regulatory jurisdictions in which the Company operates.

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

19 A. Yes.

20

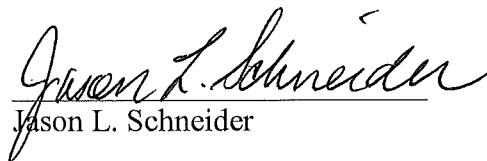
VERIFICATION

STATE OF TEXAS

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§
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COUNTY OF DALLAS

Jason L. Schneider, being duly sworn upon his oath, deposes and states that he is the Director of Accounting 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.


Jason L. Schneider

Subscribed and sworn before me this 17th day of January, 2012.


Notary Public

My appointment expires: 10-29-12

