BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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| 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 2020 ANNUAL REPORT OF ATMOS ENERGY CORPORATION

Atmos Energy Corporation ("Atmos Energy" or "Company") submits the attached 2020 annual report to provide information on progress made by Atmos Energy with respect to its Plan for Systematic Accelerated Replacement of Bare Steel Service/Yard Lines and Bare Steel Mains Within Class 3 Locations/Urban Areas ("343 Plan"), which was filed with the Kansas Corporation Commission ("Commission") on April 24, 2018.

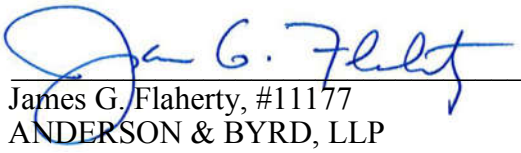
1. Atmos Energy has historically and continues to engage in extraordinary investment accelerating replacement of infrastructure beyond required levels to benefit its customers through the enhanced safety, reliability and modernization of its system. Over the past decade in Kansas, Atmos Energy has been investing in its infrastructure by replacing and modernizing its 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 ("GSRS") to the greatest extent possible to achieve that goal.

2. Pursuant to the recommendations included in the Commission Staff's ("Staff") Memorandum filed in Docket No. 15-GIMG-343-GIG ("343 Docket") ("Staff Memorandum"), Atmos Energy submits the report attached hereto as Exhibit A. The report (1) details progress made in the preceding year, explaining any deviation from the preceding year's (2019) projections, any deviation from initial projections, and revising remaining plan projections; and (2) contains an update of parameters similar to those listed in Tables LMH-1 and LMH-2 that were included in the

body of the Staff Memorandum.

3. Atmos Energy remains steadfast in its commitment to the safety of its customers and continues to make substantial accelerated investments in the safety, reliability and modernization of its system, of which the investment that meets the characteristics described in the Order issued in the 343 Docket is only a subset. To the extent applicable, Atmos Energy has developed the attached Annual Report addressing the topics outlined in the Staff Memorandum. Please note that Atmos Energy plans its projects on a fiscal year basis, so the data requested on a calendar year basis may not provide an informative year-over-year comparison.

4. Atmos Energy looks forward to continuing to work with the Commission and its Staff to expand the systematic replacement described in the 343 Plan to modernize its system in both urban and rural areas across Kansas and to develop the rate recovery necessary to support that investment. As these efforts continue and Atmos Energy has historical data pursuant to those efforts, Atmos Energy will work with the Staff to develop an even more robust annual reporting format that aligns with the methodology and approach ultimately used for pipeline replacement and provides the Commission with even more transparency and oversight of the implementation of its common goal of accelerated pipeline replacement and modernization of its distribution system.



James G. Flaherty, #11177
ANDERSON & BYRD, LLP
216 S. Hickory ~ P. O. Box 17
Ottawa, Kansas 66067
(785) 242-1234, telephone
(785) 242-1279, facsimile
jflaherty@andersonbyrd.com

Shelly M. Bass
Senior Attorney Atmos Energy Corporation
5430 LBJ Freeway, 1800 Three Lincoln Centre
Dallas, Texas 75240
972-855-3756 Office
972-855-3080 Fax
shelly.bass@atmosenergy.com
Attorneys for Atmos Energy Corporation

## VERIFICATION

STATE OF KANSAS
COUNTY OF FRANKLIN, ss:

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 2020 Annual Report and is duly authorized to make this affidavit; that he has read the foregoing 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 27th day of April, 2020.

NOTARY PUBLIC - State of Kansas
RONDA ROSSMAN
My Appt. Exp. 5/25/22

Notary Public

Appointment/Commission Expires:

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via electronic mail this 27th day of April, 2020, addressed to:

Jared N. Geiger
Jared.Geiger@atmosenergy.com

Dari R. Dornan
dari.dornan@blackhillscorp.com

Ann L. Stichler
ann.stichler@blackhillscorp.com

Thomas D. Stevens
tom.stevens@blackhillscorp.com

David W. Nickel
d.nickel@curb.kansas.gov

Della Smith
d.smith@curb.kansas.gov

Shonda Rabb
s.rabb@curb.kansas.gov

Robert Elliott Vincent
r.vincent@kcc.ks.gov

Janet L. Buchanan
janet.buchanan@onegas.com

Judy Y. Jenkins
Judy.JenkinsHitchye@onegas.com

James G. Flaherty

# ATMOS ENERGY 2020 ANNUAL REPORT

## I. INTRODUCTION; STATISTICS AND INVESTMENT INFORMATION

1. Since the filing of its Plan for Systematic Accelerated Replacement of Bare Steel Service/Yard Lines and Bare Steel Mains within Class 3 Locations/Urban Areas ("343 Plan") on April 24, 2018, Atmos Energy Corporation ("Atmos Energy" or "Company") has continued its proactive approach to risk assessment and pipeline replacement to continue to advance the safety, reliability and modernization of its system for the benefit of its Kansas customers to the extent possible, given both practical and regulatory constraints. To that end, Atmos Energy carefully monitors its system, devotes additional resources as necessary, and accelerates work when appropriate. This includes a comprehensive risk-based approach to prioritizing projects for 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.

2. Over the past year, 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. During calendar year 2019, Atmos invested approximately $13,606,109 million on GSRS related activities. Further, Atmos Energy invested an additional $9,460,946 million in safety, reliability and modernization capital projects that were not recoverable through the GSRS. As a result of this investment, Atmos Energy replaced 8 miles of main comprised of bare steel, as well as 321 service lines. Approximately 4 of those miles and 90% of those bare steel services lines were in Class 3 locations/urban areas.

II. 343 PLAN STATUS UPDATE

**TABLE 1 - 343 Statistics**

| | 343 Plan | CY2018 Historical | CY2019 Historical | CY2020 Projections |
|---|---|---|---|---|
| Number of Urban Areas | 87 | 79 | 79 | 78 |
| Miles of Bare Steel Main in Class 3 Locations | 596 | 577 | 554 | 539 |
| Replacement Rate of Bare Steel Mains in Class 3 Locations (Miles/Year) | 17[1] | 14 | 4 | 15 |
| Number of Bare Steel Service Lines | 28,000 | 18,577 | 23,192 | 22,500 |
| Bare Steel Services Replacement (Lines/Year) | 1,370 | 1461 | 292 | 692 |
| Miles of Cast Iron Mains | 0 | 0 | 0 | 0 |
| Years to Completion[2] | 35 | 35 | 34 | 33 |

| | CY2017 | CY2018 | CY2019 | CY2020 |
|---|---|---|---|---|
| Underground Leaks per 100 Miles of Obsolete Piping | 41.2 | 39.5 | 30.0 | N/A |
| Total Project Cost, Current $ | $348 million | | | |

3. In 2019, the Company replaced 4 miles of bare steel mains in Class 3 locations and 292 steel services lines. Overall investment in safety, reliability and GSRS increased in 2019 from 2018 levels, which was the result of the Company's risk-based approach rather than pursuing projects based solely on 343-specific qualifying materials.

[1]This figure represents an average replacement rate over a 35-year period beginning in January 2019.

[2]Atmos Energy's 343 Plan reflects a beginning date of January 2019. At this time, the Company's estimated number of years to complete the pipeline replacement described in the Plan has not been revised.

4. Atmos Energy uses a risk ranking model to help determine the order in which to replace pipe. The model considers many factors to determine the likelihood of failure and the consequence of failure. Using these factors, the Company calculates a risk ranking of bare steel in Class 3 locations in 158 areas across 79 cities. The risk ranking methodology creates a score for each of the 158 areas using factors that assess likelihood of failure and consequence of failure. Atmos Energy has continued its discussions with the Staff to provide further insight into the details and mechanics of the risk prioritization model and looks forward to continuing those discussions.

5. The Company notes that it has continued to increase its investment in safety and reliability from historical levels. A snapshot of the Company's fiscal year spending, based on 12-months ending September 2019, shows a more consistent increase in safety and reliability spending over the past two years. The Company plans to work with the Staff and the Commission to determine appropriate ratemaking treatment to support continued increases in investment levels. *See*, Table 2 below.

**TABLE 2 - Atmos Energy Fiscal Year Safety and Reliability Investment**

| | Fiscal 2017 Historical | Fiscal 2018 Historical | FY 2019 Historical | FY 2020 Projections |
|---|---|---|---|---|
| Total Safety, Reliability and GSRS Investment | $16,777,634 | $18,476.504 | $25,022,392 | $22,609,308 |

**TABLE 3 - Estimated Replacement Costs**

| | 343 Plan | CY2018 Historical | CY2019 Historical | CY2020 Projections |
|---|---|---|---|---|
| Main Replacement ($/mile) | $525,000 | $535,000 | $308,470 | $728,374 |
| Service Line Replacement ($/ea.) | $1,400 | $1,982 | $2,100 | $2,235 |

| | 2015-2017 | CY2018 | CY2019 | CY2020 |
|---|---|---|---|---|
| Total Safety, Reliability and GSRS Spending | $18,299,984 | $23,250,158 | $23,067,054 | $22,609,308 |

| | 2016-2017 | CY2018 | CY2019 | CY2020 |
|---|---|---|---|---|
| Average miles undesirable pipe replaced | 53 | 30 | 8 | 22 |
| Average cost of replacing undesirable pipe ($/mile-equivalent) | $504,444 | $338,349 | $262,800 | $419,223 |

6. Atmos Energy is achieving this level of investment by working closely with the communities we serve to coordinate projects to minimize disruption, achieve efficiencies, and maximize customer and community benefits. Using a cohesive communications plan, Atmos Energy is excelling at proactively sharing information and pre-planning with community leaders, which includes council meeting attendance, hosting community events, project signage, flyers, as well as partnering with city communications specialists who access social media to convey this information to the public. Building on this success, the Company is planning future events that will seek to share project information with civic leaders. Consistent communication with the cities Atmos Energy serves, partnered with superior customer service, ensures a measure of trust with all community stakeholders.

7. As an additional benefit to Kansas communities, Atmos Energy's cross bore prevention procedures include camera scoping of sewer lines. This enables the Company to provide cities with electronic GPS mapping of their wastewater system in project areas, which is a substantial benefit for the cities' future maintenance and project planning.

## III. PLASTIC PIPE DATA

8. As noted in Staff's Memorandum, Kansas pipeline safety regulations currently require plastic piping to be surveyed at least once every five years or as often as necessary, while bare steel piping is required to be surveyed at least once every three years. In discussions with the Staff, Atmos Energy agreed to conduct leak surveys on its plastic pipe inventory on a three-year frequency, which aligns with the frequency of surveys on its bare steel inventory. This approach allows Atmos Energy to efficiently schedule leak surveys across the system and provide for more frequent surveys of obsolete piping. In order to synchronize leak survey schedules, Atmos Energy committed to transition to a more frequent leak survey of plastic piping over a three-year period beginning in 2019. Pursuant to the Staff's recommendation in its Memorandum, Atmos Energy has attached to this Annual Report as Attachment A leak data on plastic pipe that includes the type of plastic, its manufacturer, and date of installation along with the characteristics of the leak in the format created by the American Gas Association Plastic Pipe Database Committee.

## IV. LOST AND UNACCOUNTED FOR GAS ("L&U") REPORT

9. Atmos Energy submits to the Commission a total L&U for the state of Kansas. In its 343 Plan, the Company stated that beginning in 2019, Atmos Energy would 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 data regarding this system is shown in

the table below. However, 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 but not limited to measurement, third-party damage, billing errors, leakage and the timing of billing and consumption.

**TABLE 4 - Johnson County Contiguous System**

| Year | Gas In | Gas Out | Known Loss | L&U Volume | L&U Percentage |
|---|---|---|---|---|---|
| 2019 | 14,931,234 | 15,055,483 | | 124,250 | 0.8% |

PIPELINE SAFETY MANAGEMENT SYSTEM

10. The Staff's Memorandum also includes a recommendation that "the Utilities provide a summary of progress made to adopt/implement [a Pipeline Safety Management System (PSMS) as described in API Recommended Practice 1173] as part of their annual progress report." The Staff clarified that its recommendation is not to require that the PSMS be adopted by any certain date but rather to request an update on the status of the Utilities' activities informed by the Recommended Practice. Currently, the practices and procedures of Atmos Energy reflect the elements highlighted in API 1173. To formalize and refine this approach, Atmos Energy is committed to adopt API 1173 and is working to develop an implementation roadmap.