

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Susan Talbot Docket
Room

In The Matter of The Application of Atmos Energy)
for an Order to Permit the Company Establish Rates) Docket No. 03-ATMG-539-TAR
for a Weather Normalization Adjustment.)

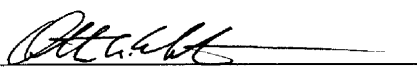
STAFF MEMORANDUM IN SUPPORT OF STIPULATION AND AGREEMENT

COMES NOW the Staff of the State Corporation Commission of the State of Kansas (“Staff” and “Commission”, respectively) and files its Memorandum in support of the Stipulation and Agreement filed by Atmos Energy (Atmos) and Staff on May 8, 2003.

1. On May 8, 2003, Atmos and Staff (Joint Movants) entered into a Stipulation and Agreement in this matter and filed their Joint Motion for an Order Approving the Stipulation and Agreement.

2. In support of the Stipulation and Agreement entered into and filed by Joint Movants, Staff incorporates by reference the Memorandum jointly prepared by Drs. Soojong Kwak and John Cita dated May 12, 2003, which is attached hereto as Attachment 1.

Respectfully submitted

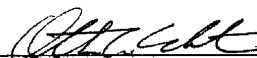


Otto A. Newton #8760
Assistant General Counsel
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, KS 66604
(785) 271-3157

VERIFICATION

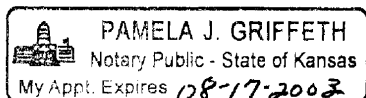
STATE OF KANSAS)
)
COUNTY OF SHAWNEE)

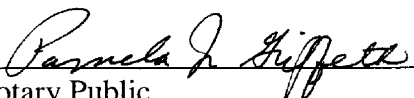
The undersigned, upon oath first duly sworn, states that he is an Assistant General Counsel for the State Corporation Commission of the State of Kansas, that he has read the foregoing pleading, that he is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of his knowledge and belief.



Otto A. Newton

Subscribed and sworn to before me this 12th day of May, 2003.






Notary Public

Memorandum

To: Chair Brian Moline
Commissioner John Wine
Commissioner Robert E. Krehbiel

From:  Soojong Kwak and  John Cita

Date: May 12, 2003

RE: Staff Support of Joint Motion for an Order Approving Stipulation and Agreement Regarding ATMOS's Application to Implement a Weather Normalization Adjustment Mechanism (WNA), Docket No. 03-ATMG-539-TAR.

Background

With this Application ATMOS Energy (ATMOS) seeks permission to implement a weather normalization adjustment mechanism (WNA). In general, the WNA mechanism serves to stabilize a utility's revenue stream vis-à-vis abnormal weather. For example, when the utility's (net) revenue surges simply as a result of a cold spell (i.e., abnormal cold), the WNA serves to return the excess revenue to ratepayers in the form of a 'WNA credit.' On the other hand, abnormal warmth will generate a deficiency in recovered revenue and, thus, a 'WNA charge.'

The instant application represents the second request for the Commission to approve a weather normalization adjustment mechanism, Kansas Gas Service Company (KGS) having submitted the first. The KGS Application, with minor modifications, was approved by the Commission through its Order dated October 27, 2000, Docket No. 01-KGSG-229-TAR.

Staff Analysis

But for minor differences, ATMOS's proposed WNA is essentially equivalent to the WNA approved by the Commission and subsequently implemented by KGS.

What are the differences?

There are two basic differences.

One: with the ATMOS WNA, the "WNA factor" is updated every month, while the KGS "WNA factor" is updated once a year. In brief, the ATMOS WNA applies a real time weather normalized adjustment to its customers' bills. For example, if weather was colder than normal during the month of February, then the monthly bills reflecting February usage will provide a refund (i.e., a WNA credit). Thus, when the billing month experiences abnormal weather and, consequently, sales during that month are either abnormally high or low, the bills rendered for that month will contain a WNA refund or

charge, respectively. With the ATMOS WNA, there effectively is *no time lag* between the actual weather experienced by the ratepayer (during the billing period) and the WNA charge/credit they see on their monthly bill. In contrast, the KGS WNA reflects not the previous billing period's abnormal weather, but the previous year's abnormal weather. With the KGS WNA there effectively is a *one year time lag*.

Two: ATMOS's WNA factor does not include a true-up term, as does KGS's WNA factor. Rather, any need to true-up ATMOS's WNA mechanism would be handled through ATMOS's ACA factor. Put another way: as with any pass-through mechanism, the implementation of a WNA will result in a mismatching of the actual and allowed revenue recovery. That mismatching requires a "true-up." The standard way to true-up the revenue recovery is through the application of a true-up factor, which Staff generally refers to as the ACA factor. In summary, the ATMOS WNA does not provide its own true-up term, whereas KGS's WNA does. That is not to suggest that ATMOS ignores the need to perform a (WNA based) true-up, it's just handled in a different way – through ATMOS's ACA factor.

Assessment of the differences.

Because ATMOS's WNA is essentially a real-time adjustment, it will be easier for customers to make the connection between the WNA charge/credit on their current bill and the weather they just experienced in the previous month. With KGS's WNA, in order for its customers to make the connection between the WNA credit/charge, they must recall what the weather was like over (roughly) the previous year. Because there is no billing lag, ATMOS's WNA provides a more efficient way to stabilize both customers' bills and ATMOS's revenue stream against abnormal weather.

Because ATMOS updates its WNA factor on a monthly basis, its customers will see a WNA charge/credit that changes from month to month. Simply because it is changing every month, ATMOS's WNA charge/credit may catch the attention and raise the ire of ATMOS's customers. In spite of that risk, monthly updating is the only way to assure a smoothing of monthly bills.

In terms of calculation, the ATMOS WNA is far simpler than KGS's. The reason being, ATMOS's WNA does not embody a true-up term. But that is hardly a material difference.

Overall, it is Staff's opinion that ATMOS's WNA represents a slight improvement over KGS's WNA.

Motivation for implementing WNAs.

The general reasons for implementing a WNA are the same today as they were when KGS applied for its WNA. Those reasons include: a closer match between the annual recovered revenue and annual allowed revenue, less volatile revenue recovery and an improved ability to forecast budgets and perform long term planning. Lastly, implementation of a WNA *may* reduce shareholder exposure to the weather risk. By reducing shareholder risk, it is *possible* that the shareholders' required return (captured

by the ROE) would be lower. A lower cost of capital would translate to a lower cost of service and, thus, lower rates.

Staff modifications to ATMOS's proposed WNA

ATMOS has agreed to a modification proposed by Staff. As a result of that modification, the WNA factor will more accurately reflect actual weather conditions where ATMOS's customers are located. The more accurate the WNA factor, the smaller the expected true-up due to WNA implementation. As a result of Staff's modification, ATMOS's management believed it was then necessary to update the heat sensitive factors used to calculate the WNA factor. Staff did not oppose that updating. Thus, there are slight differences between the WNA described in the Application and the WNA that is now described in the proposed Stipulation and Agreement (S&A).

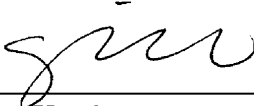
Summary and Staff Recommendation

As a matter of policy, it is Staff's position that implementation of WNA mechanisms remains reasonable. In terms of technical differences, it is Staff's position that the modified ATMOS WNA embodies improvements relative to KGS's WNA. Accordingly, and based on other evidence presented in this Memorandum, it is Staff's opinion that the Commission could find approval of the instant S&A to be consistent with the public interest.

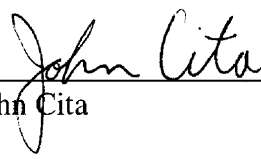
VERIFICATION
03-ATMG-539-TAR

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

Soojong Kwak and John Cita, being duly sworn upon their oaths, depose and state that they are Managing Research Economist and Chief of Economic Policy and Planning, respectively, for the State Corporation Commission of the State of Kansas, that they jointly prepared the foregoing Memorandum and are familiar with the contents thereof, and that the statements contained therein are true and correct to the best of their knowledge and belief.

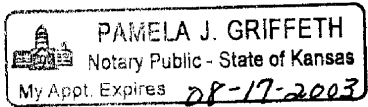


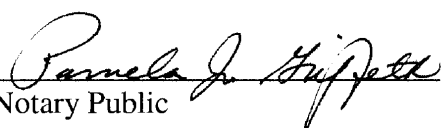
Soojong Kwak



John Cita

Subscribed and sworn to before me this 12th day of May, 2003.





Notary Public

My appointment expires: August 17, 2003

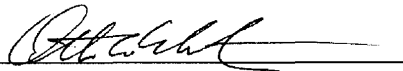
CERTIFICATE OF SERVICE

03-ATMG-539-TAR

I hereby certify that a copy of the above and foregoing Staff Memorandum in Support of Stipulation and Agreement was mailed, via U.S. Mail, postage prepaid on the 12th day of May, 2003, to the parties listed below:

James G. Flaherty
Anderson Byrd Richeson Flaherty & Henrichs
216 S. Hickory, P.O. Box 17
Ottawa, Kansas 66067

David R. Springe
Niki Christopher
Consumer Counsel
Citizens' Utility Ratepayer Board
1500 S.W. Arrowhead Road
Topeka, Kansas 66604-4027



Otto A. Newton