

**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

THOMAS H. PETERSEN

FOR ATMOS ENERGY CORPORATION

I. INTRODUCTION

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

3 **A.** My name is Thomas H. Petersen. I am Rates Director for Atmos Energy Corporation
4 (“Atmos” or “Company”), 5430 LBJ Freeway, Dallas, Texas 75240. In that role, I am
5 responsible for rate studies of Atmos’ gas utility operations in 12 states.

6 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL**
7 **EXPERIENCE?**

8 **A.** I received a Bachelor of Science degree in accounting from the University of Nebraska at
9 Omaha and a Master of Arts degree with a major in finance from the University of Iowa. I am
10 a Chartered Financial Analyst. From July 1980 through March 1989, I was employed in the
11 Rates and Tariffs Division of the Kentucky Public Service Commission. I was Manager of
12 Rates and Revenue Requirements for Atmos from April 1989 through September 1997. I was
13 Director of Price Policy and Administration from October 1997 through September 1998 and

1 then Director of Rates until October 2008. I have been in my current position since October
2 2008.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE STATE CORPORATION**
4 **COMMISSION OF KANSAS?**

5 **A.** Yes, I filed testimony in Docket Nos. 03-ATMG-539-TAR, 03-ATMG-1036-RTS and 08-
6 ATMG-280-RTS. Also, I have presented testimony before the utility regulatory commissions
7 in Kentucky, Texas, Louisiana, Colorado, Tennessee, Georgia, Missouri, Mississippi and
8 Virginia.

9 **Q. WHAT IS THE SCOPE OF YOUR TESTIMONY IN THIS PROCEEDING?**

10 **A.** I am sponsoring the calculations of rate base and depreciation expense as well as the
11 Company's Class Cost Allocation Study ("Study"). Rate base is summarized in Section 3 of
12 the Rate application with plant presented in Section 4, accumulated depreciation in Section 5,
13 working capital in Section 6 and other rate base items in Section 14A. The results of the Study
14 are presented in Section 14 of the Rate Application.

15 II. RATE BASE

16 **Q. DOES THE COMPANY HAVE ANY ADJUSTMENTS TO PLANT IN SERVICE AND**
17 **ACCUMULATED RESERVE?**

18 **A.** No. However, as shown in Sections 4 and 5 of the Rate Application plant in service and
19 accumulated reserve from Shared Services and the Colorado/Kansas general office were
20 allocated to the Kansas service area.

21 **Q. WHAT ADJUSTMENT WAS MADE TO CONSTRUCTION WORK IN PROGRESS**
22 **("CWIP")?**

23 **A.** I removed the accumulated cost of long-term projects from CWIP. This adjustment,

1 designated as RB-1, is shown on WP 14-1 and is calculated on WP 14-1-2.

2 **Q. DOES THE COMPANY'S RATE FILING REFLECT ADJUSTMENTS TO THE PER**
3 **BOOK AMOUNTS OF ACCUMULATED DEFERRED INCOME TAX (ADIT)?**

4 **A.** Yes. Adjustments to ADIT are designated as RB-2, appear in the Schedule 14A, and are
5 calculated on WP-14-4 and WP 14-4-1.

6 **Q. WERE ANY ITEMS EXCLUDED FOR RATEMAKING PURPOSES?**

7 **A.** Yes. Adjustments were made to normalize ADIT related to over/under recovery of gas cost to
8 zero. Additionally, the adjustments exclude book to tax differences in Shared Services that
9 relate to jurisdictions other than Kansas.

10 **Q. WERE ADJUSTMENTS MADE TO ANY OTHER RATEBASE ITEMS?**

11 **A.** No. Amounts for Storage Gas, Prepayments, Customer Advances for Construction and
12 Customer Deposits are included at the per book 13-month average balances. Cash Working
13 Capital is included at a zero balance.

14 **Q. PLEASE DESCRIBE THE ALLOCATION OF SHARED SERVICES AND GENERAL**
15 **OFFICE RATE BASE ITEMS TO KANSAS?**

16 **A.** The Company does not allocate rate base items in its books and records. Therefore, rate base
17 items that are booked at the shared services and the business unit general office levels must be
18 separately allocated to include the amounts applicable to Kansas in rate base. In this filing,
19 rate base items were allocated using the allocation factors shown in Section 12. The
20 development of these factors is the same as that discussed in the Company's Cost Allocation
21 Manual described in and attached to the testimony of Company witness Mr. Dan Meziere.

22 **II. DEPRECIATION EXPENSE**

23 **Q. PLEASE DESCRIBE THE COMPANY'S CALCULATION OF DEPRECIATION**

1 **EXPENSE.**

2 **A.** This adjustment, designated as IS-7, recalculates depreciation expense utilizing the
3 depreciation rates currently in effect for assets in Kansas, Shared Services and the
4 Colorado/Kansas General Office. These rates were applied to the end-of-test-year balances of
5 plant in service by plant account, thereby normalizing depreciation expense to be consistent
6 with the level of plant in service at the end of the test year. The depreciation rates used in the
7 calculation of depreciation expense are the same rates approved by the Commission in the
8 Company's last case, docket 08-ATMG-280-RTS for Shared Services and assets located in
9 Kansas. In addition, the Colorado Public Service Commission in Docket 09AL-507G recently
10 approved a new set of depreciation rates for the Colorado/Kansas General Office, which is
11 located in Colorado, but is used in providing services to both Colorado and Kansas. The
12 Company is currently booking those recently approved rates and I have used them in
13 calculating depreciation expense in this case for those assets allocated to Kansas.

14 **III. CLASS COST OF SERVICE STUDY**

15 **Q. WHAT IS THE PURPOSE OF THE STUDY?**

16 **A.** The objective of the Study is to present a fair and reasonable allocation of the Company's
17 revenue requirement among the various customer classes. The proposed revenue
18 requirement, excluding gas cost, is allocated among the Residential, Commercial
19 (including Public Authority), School Industrial and Interruptible, and Irrigation sales
20 classes and the Firm, Interruptible, Firm School and Interruptible School Transportation
21 classes. The results of the Class Cost Allocation Study may be useful in developing the
22 proposed rate design.

23 **Q. PLEASE DESCRIBE THE STUDY.**

1 **A.** The Study begins with cost data grouped into functional categories including gas production,
2 storage, transmission, distribution and administrative and general. The costs for each
3 functional group are then reviewed with regard to whether the costs are more related to the
4 number of customers served, the amount of commodity used, the peak use demand placed on
5 the system or a combination of these items. The customers are then grouped into customer
6 classes considering the amount and pattern of gas use. Factors are developed to allocate each
7 cost category among the customer classes. Finally, the allocated costs are compared to current
8 and proposed revenues for each customer class with the result of the comparison expressed as
9 a rate of return on rate base for each class.

10 **Q. HOW WERE THE CUSTOMER CLASS GROUPINGS DETERMINED?**

11 **A.** The customer class groupings in the Study are similar to the groupings used in the Company's
12 filing in its last case, Docket Nos. 08-ATMG-280-RTS. However, in this case the rate classes
13 that contain customers in both southwest Kansas (rate division 86) and the rest of Kansas (rate
14 division 81) are not shown separately. In order to show the rates of return by class for full
15 tariff customers, the special contract customers have been removed from the transportation
16 class and their revenues have been allocated across all other (including transportation) classes
17 based on annual throughput. This treatment is consistent with Staff's treatment in the
18 Company's prior rate cases.

19 **Q. PLEASE EXPLAIN THE ORGANIZATION OF THE STUDY.**

20 **A.** Page 1 shows a summary of the results of the Study by class. The allocation of Kansas rate
21 base is on pages 2 and 3 of the Study. Margin is shown on page 4, operating expenses are
22 shown on pages 5 and 6 and allocation factors are shown on pages 7 and 8. Additional
23 workpapers supporting the Study are included beginning on page 9.

1 **Q. HOW WERE THE COST ALLOCATION FACTORS DETERMINED?**

2 **A.** The allocation factors are determined based on cost causation. The allocation factor applied to
3 a cost category is chosen with the intent to allocate costs proportionately to the customer
4 classes that are responsible for the cost. However, in reality, most categories of cost are
5 incurred in common to serve all customer classes and most costs are relatively fixed with
6 regard to changes in customer use. The study allocates most of these fixed, common costs
7 using a combination of peak and average use. This method reflects the fact that the facilities
8 serving the customers and related expenses are incurred to meet peak load requirements and
9 also to provide service throughout the year. For example, mains are designed to meet peak
10 load requirements for all customers on a system and also are used to provide service all year.
11 Therefore, the study allocates costs to each customer class based on 75% peak day
12 consumption, and 25% annual throughput for that class. In this way the cost of facilities
13 designed to meet peak demands on the coldest day of the year are allocated among customer
14 classes primarily on the basis of their use of the facilities on the peak day, with a portion of the
15 costs allocated based on use of the facilities throughout the year.

16 **Q. HOW ARE THE COMPONENTS OF RATE BASE ALLOCATED?**

17 **A.** There are a number of components to rate base and each one needs to be allocated to the
18 customer classes using an appropriate factor. Natural gas production plant is used to meet both
19 peak and annual sales requirements. It is allocated to the classes 75% on peak sales and 25%
20 on annual sales. For the residential, commercial, public authority and industrial customers
21 using firm service primarily for space heating requirements, peak day use was estimated from
22 peak month use. For irrigation and interruptible customers who do not place peak demands on
23 the system in the winter peak day, use was imputed by dividing annual use by 365 days.

1 Storage plant is used to meet peak sales requirements and to provide economical sales service
2 throughout the winter season. Storage gas balances are drawn down to serve sales customers
3 during the months of November through April. Sales usage during these months is defined as
4 winter season sales volume for allocation of storage investment. Storage plant is allocated
5 75% on peak sales and 25% on winter season sales volume.

6 Transmission plant is used to meet both peak and annual requirements for transportation
7 customers as well as sales customers. It is allocated 75% on peak throughput and 25% on
8 annual system throughput. In this way transportation customers are allocated a share of the
9 costs of the transmission system.

10 Within distribution plant, meter investment is assigned to customer classes based on an
11 analysis of the number and size of meters serving each of the customer classes. Using data
12 from this meter analysis, the investment in services, meter installation, house regulators and
13 installation and large measuring and regulator station equipment is allocated among the
14 customer classes. The remainder of distribution plant is allocated 75% on class use at the peak
15 and 25% on annual throughput. This method gives consideration to the limited use of the
16 distribution system by the irrigation class and other customers with off peak usage.

17 General plant is allocated among customer classes using the percentage of plant for the other
18 functional categories allocated to each class. The percentage of gross plant allocated to each
19 rate class is then used to allocate accumulated depreciation, deferred taxes and materials and
20 supplies. Customer deposits and advances are related primarily to residential and commercial
21 services and are allocated between those classes based on the number of customers served with
22 each class. Storage gas is used to meet winter peak and seasonal requirements so it is allocated
23 75% on winter peak usage and 25% on winter seasonal usage.

1 **Q. HOW ARE REVENUES ALLOCATED AMONG CUSTOMER CLASSES?**

2 **A.** Since revenues are received directly from customers, there is little need for allocation of
3 revenues among customer classes. Base charge revenues are from the section 17 of the filing,
4 discussed in Mr. Joe Christian's testimony. Since the ad valorem tax surcharge is billed on
5 firm volumes, revenues from that tax are allocated based on annual firm volumes.
6 Miscellaneous revenue, which comprises less than 2% of total revenue, is not easily retrievable
7 by customer class from our customer information system. Miscellaneous revenue is mostly
8 related to customer service charges for such things as initiating service. It is allocated among
9 classes based on the number of meters served within each class.

10 **Q. HOW ARE OPERATING AND MAINTENANCE EXPENSES ALLOCATED AMONG**
11 **CUSTOMER CLASSES?**

12 **A.** In general, the allocations follow the allocation of rate base. Natural gas production expenses
13 are allocated 75% on non-coincident peak sales and 25% on annual sales. Storage expenses
14 are allocated 75% on peak sales and 25% on winter season sales volume. Transmission
15 expenses are allocated 75% on non-coincident peak throughput and 25% on annual system
16 throughput. Distribution expenses are allocated based on the percentage of distribution plant
17 assigned to each customer class. Meter reading expenses are allocated based on the number of
18 meters in each customer class. Other customer accounts, customer service expense and sales
19 expenses are allocated based on the number of bills issued to each class. Administrative and
20 general expenses are allocated in proportion to operating and maintenance expenses for the
21 other functional categories.

22 **Q. HOW ARE OTHER EXPENSES ALLOCATED AMONG CUSTOMER CLASSES?**

23 **A.** Depreciation expense is allocated in proportion to gross plant. Other taxes are approximately

1 85% property taxes with the remainder mostly payroll taxes, so they are allocated 85% on
2 gross plant and 15% on operating and maintenance expenses. Income taxes are allocated in
3 proportion to taxable income.

4 **Q. WHAT ARE THE RESULTS OF THE STUDY?**

5 **A.** The results are shown on page 1 of the study. Rates of return on rate base at revenues from
6 current rates are calculated for each class at the top of the page. Rates of return on rate base at
7 revenues from proposed rates are calculated for each class at the bottom of that page. The
8 calculation of rates of return on rate base at current revenues shows an overall rate of return of
9 6.6% and a range of rates of return on rate base from 2.6% for Schools to 11.5% for Irrigation.
10 The larger classes, Residential and Commercial/ Public Authority sales have rates of return of
11 6.0% and 7.8% respectively, which is close to the overall average rate of return. At the
12 Company's proposed rates, the overall rate of return on rate base would be approximately
13 9.1%, with the Residential class having a rate of return of 9.0%, the Commercial and Public
14 Authority class having a rate of return of 9.4%.

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

16 **A.** Yes.

VERIFICATION

STATE OF TEXAS)
) ss
COUNTY OF DALLAS)

Thomas H. Petersen, being duly sworn upon his oath, deposes and states that he is the Rates Director of 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.

Thomas H. Petersen
Thomas H. Petersen

Subscribed and sworn before me this 21st day of January, 2010.

Ethel Z. Taylor
Notary Public

My appointment expires: August 13, 2010

