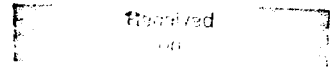


BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS



JUN 08 2012

IN THE MATTER OF THE APPLICATION]
OF ATMOS ENERGY FOR ADJUSTMENT]
OF ITS NATURAL GAS RATES IN]
THE STATE OF KANSAS]

by
State Corporation Commission
of Kansas

KCC Docket No. 12-ATMG-564-RTS

DIRECT TESTIMONY OF

BRIAN KALCIC

RE: RATE DESIGN

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

June 8, 2012

1 **Q. Please state your name and business address.**

2 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

3

4 **Q. What is your occupation?**

5 A. I am an economist and consultant in the field of public utility regulation, and principal of
6 Excel Consulting. My qualifications are described in the Appendix to this testimony.

7

8 **Q. On whose behalf are you testifying in this case?**

9 A. I am testifying on behalf of the Citizens' Utility Ratepayer Board ("CURB").

10

11 **Q. What is the subject of your testimony?**

12 A. I will address Atmos Energy Corporation's ("Atmos" or "Company") rate design proposals
13 for the residential sales service class ("RS") and commercial/public authority sales service
14 class ("C/PA").

15 In addition, I will comment on the Company's proposed Gas System Reliability
16 Surcharge Rider ("GSRS").

17

18 **Q. Do you have any preliminary comments?**

19 A. Yes. I wish to note that my testimony in this proceeding makes certain references to the
20 Company's proposed RS and C/PA class revenue requirement levels. Such references are
21 intended to facilitate a comparison of CURB's alternative RS and C/PA rate design
22 proposals, and should not be construed as support for the Company's overall requested
23 revenue requirement or proposed class revenue allocation.

1

2 **Q. Please summarize your primary recommendations.**

3 A. Based upon my analysis of Atmos's filing and interrogatory responses, I recommend that
4 the Kansas Corporation Commission ("KCC" or "Commission"):

- 5 • Reject the Company's proposal to recover approximately 56% of its total
6 base rate revenues in facilities charges;
- 7 • Adopt CURB's recommended RS and C/PA facilities charges; and
- 8 • Require the Company to show any prospective GSRS surcharges as a
9 separate line item on customers' bills.

10 The specific details associated with the above recommendations are discussed below.

11

12 **RS and C/PA Rate Design**

13 **Q. Mr. Kalcic, please describe the Company's current RS and C/PA rate structures.**

14 A. The Company serves residential sales service customers via Rate Schedule 910, which
15 includes a facilities (or customer) charge and a flat-rate volumetric charge. Atmos serves
16 commercial and public authority sales service customers via Rate Schedule 915. Like Rate
17 Schedule 910, Rate Schedule 915 contains a facilities charge and a flat-rate volumetric
18 charge.

19

20 **Q. How does Atmos propose to adjust its current RS and C/PA rates in this proceeding?**

21 A. The Company proposes to increase the RS facilities charge from \$15.50 to \$19.00 per
22 month, and the C/PA facilities charge from \$37.00 to \$44.00 per month. Atmos would
23 recover the balance of each class' proposed revenue requirement in the volumetric charge.

1

2 **Q. How did the Company determine the levels of its proposed RS and C/PA facilities**
3 **charges?**

4 A. Atmos proposes to “balance the fixed and variable elements” in its distribution rates “to
5 reflect the underlying cost characteristics of our service and establish rates for each class
6 that recover the appropriate contribution to our overall revenue requirement.”¹

7 At the present time, Atmos recovers approximately 56% of its total base rate
8 revenues through facilities charges. In the Company’ view, it would be appropriate to
9 maintain that “balance” between the fixed and variable elements of its distribution rates.

10

11 **Q. Does CURB agree that the Company’s proposal to recover approximately 56% of its**
12 **total base rate revenues through facilities charges is appropriate?**

13 A. No. As discussed below, the Company’s proposed 56% target is too high.

14

15 **Q. Mr. Kalcic, what types of costs does a natural gas utility incur?**

16 A. In general, a utility’s costs (revenue requirement) may be classified as demand-,
17 commodity- or customer-related. Demand-related costs are driven by the peak demands
18 placed on the system. Commodity costs are related to the amount of annual consumption
19 on a utility system. Customer costs are those that vary with the number of customers
20 served, such as the costs associated with meters, meter reading, service lines, and billing.

21

22 **Q. What types of costs should a utility recover in its facilities charges?**

¹ See page 6 of the Direct Testimony of Gary L. Smith.

1 A. Facilities charges should be limited to the recovery of a utility's *customer-related* costs.
2 All other costs should be recovered via a utility's volumetric and/or demand charges.

3

4 **Q. Mr. Kalcic, have you quantified Atmos's total customer-related costs, at the**
5 **Company's claimed revenue requirement level?**

6 A. Yes, I have. Schedule BK-1 summarizes the total amount of customer related costs
7 allocated to each rate class in the Company's cost-of-service study ("COSS"). Per line 1 of
8 Schedule BK-1, the total amount of customer related costs incurred by Atmos is \$25.953
9 million. As shown on line 12 of Schedule BK-1, only 44.8% of the Company's claimed
10 rate revenue requirement is customer-related. As such, Atmos's proposal to recover 56%
11 of its proposed rate revenues in facilities charges is inappropriate.

12

13 **Q. Does CURB recommend that Atmos reduce the level of its fixed charge recovery to**
14 **44.8% in this proceeding?**

15 A. No. In order to provide a reasonable balance between the existing level of fixed charge
16 recovery (56%) and cost based level of fixed charge recovery (44.8%), CURB recommends
17 adjusting Atmos's proposed rate design to recover 50% of its base rate revenues in facilities
18 charges.

19

20 **Q. What are your recommended facilities charge levels for the Company's RS and C/PA**
21 **classes?**

22 A. Table 1 below shows the facilities charge levels needed to recover 50% of the Company's
23 proposed RS and C/PA class revenue requirements.

24

Table 1

Computation of Benchmark RS and C/PA Facilities Charges

	<i>RS Class</i> <i>(a)</i>	<i>C/PA Class</i> <i>(b)</i>
Atmos Proposed Revenues	\$42,524,271	\$10,240,209
50% of Proposed Revenues	\$21,262,136	\$5,120,105
Number of Annual Bills	1,414,436	117,890
Required Facilities Charge	\$15.03	\$43.43

Source: Exhibit GLS-1.

Since the current RS facilities charge of \$15.50 per month exceeds the benchmark RS facilities charge of \$15.03 per month, I recommend that the current RS facilities charge remain unchanged at the conclusion of this proceeding. On the other hand, since the current C/PA facilities charge of \$37.00 per month is less than the computed benchmark charge of \$43.43, I recommend that the current C/PA facilities charge be increased to \$43.50 per month (i.e., \$43.43 rounded), at the Company's claimed revenue requirement level.

Q. Do you have a recommendation in the event that the KCC awards Atmos an increase that is less than its requested amount of approximately \$9.7 million?

A. Yes. In that event, my recommended increase in the C/PA facilities charge should be reduced proportionately.

GSRs Rider

Q. Mr. Kalcic, have you reviewed the Company's proposed GSRs Rider?

A. Yes.

1

2 **Q. Does Atmos's tariff give any indication as to whether the GSRS surcharge**
3 **would appear as a separate line item on customers' bills?**

4 A. No, the tariff is silent on that matter.

5

6 **Q. Would it be appropriate for the KCC to require Atmos to show the GSRS**
7 **surcharge as a separate line item on customers' bills?**

8 A. Yes, it would. Including the surcharge as a separate line item would make a
9 customer's bill as transparent as possible, and minimize potential customer
10 confusion.

11 In addition, as a policy matter, CURB's Consumer Counsel informs me that
12 it is CURB's position that all special cost recovery mechanisms approved by the
13 KCC should appear as separate line items on customers' bills.

14

15 **Q. Does this conclude your direct testimony?**

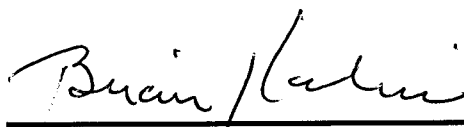
16 A. Yes.

VERIFICATION

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) ss:

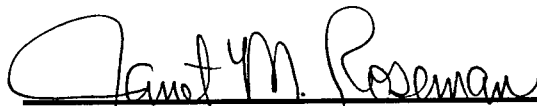
I, Brian Kalcic, of lawful age, being first duly sworn upon his oath states:

That he is a consultant for the Citizens' Utility Ratepayer Board; that he has read the above and foregoing Testimony, and, upon information and belief, states that the matters therein appearing are true and correct.



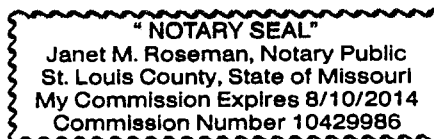
Brian Kalcic

SUBSCRIBED AND SWORN to before me this 6th day of June, 2012.



Notary of Public

My Commission expires: 8-10-2014



APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Benedictine University with a Bachelor of Arts degree in Economics in December 1974. In May 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.

SCHEDULE BK-1

CERTIFICATE OF SERVICE

12-ATMG-564-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 8th day of June, 2012, to the following parties who have waived receipt of follow-up hard copies:

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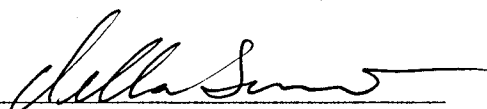
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