

**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**

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**DIRECT TESTIMONY OF**

**JOE T. CHRISTIAN**

**FOR ATMOS ENERGY CORPORATION**

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**I. POSITION AND QUALIFICATIONS**

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2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Joe T. Christian, 5420 LBJ Freeway, 1600 Lincoln Centre, Dallas, TX 75240.

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

5 A. I am employed by Atmos Energy Corporation ("Atmos" or the "Company") as  
6 Director of Rates & Regulatory Affairs.

7 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF RATES &  
8 REGULATORY AFFAIRS FOR ATMOS?**

9 A. I am responsible for leading and directing the rates and regulatory activity in  
10 Atmos' twelve-state service area. This responsibility includes developing the  
11 strategy, preparing the revenue deficiency filings, and managing the overall  
12 ratemaking process for the Company. For the past eleven years, I have managed  
13 Company specific dockets, generic commission proceedings, and other utility

1 Company dockets in Colorado, Georgia, Illinois, Iowa, Kansas, Missouri, and  
2 Texas.

3 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
4 **PROFESSIONAL EXPERIENCE.**

5 A. I graduated from East Texas State University in 1985 with a Bachelor of Business  
6 Administration Degree, majoring in Accounting. In 1987, I received a Masters of  
7 Business Administration from East Texas State University. I am a Certified  
8 Public Accountant in the State of Texas and a member of the American Institute  
9 of Certified Public Accountants.

10 My professional experience includes approximately two years of public  
11 accounting experience with a large local accounting firm based in Dallas, Texas.  
12 In 1989, I accepted a position in the internal audit group with Atmos. I was  
13 promoted to positions of increasing responsibility within the Atmos finance team  
14 during my first nine years with the Company. I joined Atmos' Colorado &  
15 Kansas operations as Vice President & Controller in June of 1998 and, effective  
16 December 1, 2001, was named Vice President of Rates & Regulatory Affairs. I  
17 assumed my current position on August 1, 2007.

18 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS**  
19 **CORPORATION COMMISSION ("KCC") OR OTHER REGULATORY**  
20 **ENTITIES?**

21 A. Yes, I have submitted testimony before the KCC in three general rate case  
22 proceedings (Docket No. 03-ATMG-1036-RTS, 08-ATMG-280-RTS, and 10-  
23 ATMG-495-RTS) and provided oral comments to the KCC in a rules

1 investigation (Docket No. 02-GIMX-211-GIV, General Investigation of the Cold  
2 Weather Rule). I have filed written testimony before the Colorado Public Service  
3 Commission in general rate case proceedings (Docket No. 00S-668G and 09AL-  
4 507G); gas prudence reviews (Dockets 00P-296G and 03P-229G); a class cost of  
5 service/rate design proceeding (Docket 02S-411G); a transportation terms &  
6 conditions proceeding (Docket 02S-442G); an upstream gas transportation matter  
7 (Docket No. 04A-275G); a complaint proceeding regarding upstream gas  
8 transportation (Docket No. 08F-033G) and most recently a Advanced Metering  
9 Infrastructure surcharge (Docket No. 10AL-822G).

10  
11 **II. PURPOSE OF TESTIMONY**

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. My testimony has seven primary purposes: (1) to present the Company's revenue  
14 requirements model which supports the increase in base rate revenues the  
15 Company is requesting in this proceeding; (2) to support and describe various  
16 adjustments to the revenue requirements related to rate base; (3) to support and  
17 describe various adjustments to the revenue requirements related to Ad Valorem  
18 Taxes, Interest on Customer Deposits, and normalization of income taxes; (4) to  
19 support the calculation of depreciation rates at year end plant; (5) to support the  
20 Company's capital structure and imbedded cost of long-term debt; (6) to support  
21 the pension tracker adjustment agreed to in the last proceeding; and (7) support  
22 the Company's proposal to move investment and costs related to Company owned

1 storage from recovery through base rates to recovery through the Company's  
2 purchased gas adjustment rates.

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### **III. REVENUE REQUIREMENTS MODEL**

5 **Q. WHAT IS THE TEST PERIOD USED IN DETERMINING THE**  
6 **REVENUE DEFICIENCY?**

7 A. The test period in this case is the 12 months ended September 30, 2011.

8 **Q. PLEASE DESCRIBE HOW THE KANSAS MINIMUM REQUIREMENTS**  
9 **ARE MET BY THE COMPANY REVENUE REQUIREMENTS MODEL.**

10 A. The Company utilized the schedule numbering scheme listed K.A.R. § 82-1-231  
11 (2009). We addressed each of the requirements outlined in our overall filing  
12 package. In the following Q&A I will describe how the minimum filing  
13 requirements were addressed for sections pertinent to the calculation of the  
14 revenue requirement; however, I will omit discussing any sections that are  
15 provided in the filing package, but aren't utilized in arriving at the Company's  
16 filing deficiency.

17 **Q. PLEASE DESCRIBE EACH OF THE SCHEDULES SUPPORTING THE**  
18 **CALCULATION OF COST OF SERVICE AND REVENUE DEFICIENCY.**

19 A. **Section 3 Summary of Rate Base, Operating Income and Rate of Return.**

20 This section accumulates the results of the various schedules described in the  
21 remainder of this answer to calculate a Kansas jurisdictional Revenue  
22 Requirement of \$ 59 million and a Kansas jurisdictional annual Revenue  
23 Deficiency of \$9.7 million. Jurisdictional results reflect Kansas direct operations,

1 plus allocations from the Company's administrative offices serving Kansas  
2 (Shared Services, Call Centers, and Colorado-Kansas General Office).

3 **Section 4 Functional Plant in Service.** This section provides functional plant  
4 balances for direct and allocated gross plant in service of \$268.5 million. The  
5 gross plant in service is further supported later in my testimony.

6 **Section 5 Accumulated Depreciation.** This section provides accumulated  
7 depreciation balances for direct and allocated accumulated reserve of \$99.8  
8 million. The accumulated depreciation is further supported later in my testimony.

9 **Section 6 Summary of Working Capital.** This section provides thirteen month  
10 average calculations of prepayments and storage gas of \$11.8 million. The  
11 prepayments and storage gas are further supported later in my testimony.

12 **Section 7 Capital and Cost of Money.** This section provides the Company's  
13 requested capital structure of 48.34% debt and 51.66% equity, cost of long-term  
14 debt of 6.52%, return on equity of 10.9% and computes an overall requested  
15 return on rate base of 8.78%. The requested capital structure and cost of debt are  
16 further supported later in my testimony. The requested return on equity is  
17 supported by Company witness Dr. William E. Avera.

18 **Section 9 Test Year and Pro-forma Income Statements.** Within Section 9, Test  
19 Year and Pro-forma Income Statements, the section provides the Company's  
20 requested Operation & Maintenance expense of \$18.7 million. The requested  
21 Operation and Maintenance expense is supported by Company witness Robert E.  
22 Hassen.

1        **Section 10 Depreciation and Amortization Expense.** This section provides  
2        depreciation and amortization expense of \$13.3 million which is associated with  
3        the Company's requested gross plant. The Company is requesting a new set of  
4        depreciation rates which is supported by a study performed and supported by  
5        Company witness Dane A. Watson.

6        **Section 11 and 11B Taxes Other Than Income Taxes & Computation of Income**  
7        **Taxes.** This section provides the Company's requested Taxes Other Than Income  
8        Taxes of \$7.2 million and the computation of Income Taxes. These sections are  
9        supported by myself and by Company witness Robert E. Hassen.

10       **Section 14A Summary of Other Rate Base Components.** This section provides  
11       the Company's requested other rate base components of construction work in  
12       progress, customer advances for construction, customer deposits, and  
13       accumulated deferred income taxes. These items, totaling to a reduction in rate  
14       base of \$20.4 million, are further supported later in my testimony.

15       **Section 14C Computation of Interest on Customer Deposits.** This section  
16       computes the adjustment related to interest expense for customer deposits. This  
17       section is supported by myself and discussed later in my testimony.

18       **Section 17 Summary of Revenue at Present and Proposed Rates.** This section  
19       computes the normalized revenue at present and proposed rates for each of the  
20       Company's tariffs. This section, containing adjustment IS-14, is supported by  
21       Company witness Gary L. Smith.

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**IV. RATE BASE ADJUSTMENTS (RB-01 – RB-02)**

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

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

**Q. WHAT ADJUSTMENT WAS MADE TO CONSTRUCTION WORK IN PROGRESS (“CWIP”) (RB-1)?**

A. Two items are included in the adjustment made to CWIP. The first item is consistent with prior cases and removes the accumulated cost of long-term projects from CWIP. The second item is to include in CWIP the remaining spending related to the Pflumm line project. This adjustment, designated as RB-1, is shown on WP 14-1 and is calculated on WP 14-1-2.

**Q. WHY IS THE COMPANY PROPOSING TO ADD IN THE ADDITIONAL AMOUNTS RELATED TO THE PFLUMM LINE PROJECT?**

A. The capital spending related to the Pflumm line project represents 75% of a normal year’s capital spending in Kansas. This is significant for Atmos’ Kansas distribution system and the extraordinary nature warrant’s the proposed treatment in this rate application. The project is scheduled to be completed in the spring of 2012; therefore, the investment will be in use before rates go in effect in this proceeding.

**Q. IN PRIOR ATMOS ENERGY CASES ONLY CWIP AT THE END OF THE TEST PERIOD CLOSED TO PLANT WITHIN SIX MONTHS WAS**

1           **INCLUDED IN RATEBASE. DOES STATUTE ALLOW PROJECTS**  
2           **CLOSED BEYOND SIX MONTHS TO BE INCLUDED IN RATE BASE?**

3    A.    Yes. K.S.A. 66-128 (2) (A) permits construction of the property commenced and  
4           completed in one year or less to be considered used in the public utility's service  
5           to the public. The Pflumm line has commenced and will be completed within one  
6           year of the ending of the test period; in fact we anticipate the project will close  
7           prior to the end of spring 2012.

8    **Q.    HOW WOULD THE COMPANY PROPOSE UPDATING THE FILING**  
9           **ONCE ACTUAL AMOUNTS RELATED TO THE PFLUMM LINE ARE**  
10          **KNOWN?**

11   A.    The Company is monitoring the costs and anticipates that actual costs will not  
12          vary significantly from is included with the filing. After March books close, in  
13          April 2012, to the extent any variance of +/- 5% is identified updated Schedules  
14          will be provided to Commission Staff and CURB to reflect the actual amounts  
15          charged to CWIP plus estimated remaining costs which should be booked prior to  
16          the end of May 2012.

17   **Q.    IF COSTS INCLUDED IN THE FILING DO NOT VARY MORE THAN +/-**  
18          **5% WOULD THE COMPANY NOT UPDATE THE SCHEDULES?**

19   A.    No. To Company would not propose to update its filed schedules, unless  
20          requested by Commission Staff or CURB, because the impact will be less than  
21          \$75,000. The impact of any variance between actual and estimated project costs  
22          could be included in Commission Staff's Accounting Schedules.



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

4 A. Yes. Adjustments to ADIT are designated as RB-2, appear in the Schedule 14A,  
5 and are 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  
8 of gas cost to zero. Additionally, the adjustments exclude book to tax differences  
9 in Shared Services that 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  
12 and Customer Deposits are included at the per book 13-month average balances.  
13 Cash Working Capital is included at a zero balance.

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

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



1 **Q. IS THE COMPANY'S ADJUSTMENT CONSISTENT WITH STAFF'S**  
2 **ADJUSTMENT IN THE 2007 DOCKET AND COMPANY'S**  
3 **ADJUSTMENT IN THE 2009 DOCKET?**

4 A. Yes.

5 **Q. PLEASE DESCRIBE THE SECOND AD VALOREM TAX ADJUSTMENT**  
6 **(IS-9).**

7 A. In addition to reflecting the most recent Ad Valorem assessment, the Company  
8 has also calculated the estimated Ad Valorem expense associated with the  
9 construction work in progress included in the Company's filing.

10 **Q. WHY IS IT NECESSARY TO MAKE THE SECOND AD VALOREM TAX**  
11 **ADJUSTMENT (IS-9)?**

12 A. K.S.A. 66-117 (f) provides a means for utilities to true-up increases in Ad  
13 Valorem expense. Given that the construction work in progress will result in a  
14 higher expense in 2012, the inclusion of this adjustment will reduce future Ad  
15 Valorem true-up filings.

16 **Q. PLEASE DESCRIBE THE INCOME TAX ADJUSTMENT (IS-12).**

17 A. Section 11B of the Company's filing computes and synchronizes income tax  
18 expense, at statutory rates, based on the accumulation of the other revenue  
19 requirement items.

20 **Q. PLEASE DESCRIBE THE INTEREST ON CUSTOMER DEPOSIT**  
21 **ADJUSTMENT (IS-13).**

22 A. Section 14C of the Company's filing utilizes the average customer deposit  
23 amount included in this filing (shown in Section 14A) and normalizes the

1 customer deposit interest rate to the .12% rate approved by the Commission in  
2 docket number 98-GIMX-348-GIV on December 21, 2011.

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**VI. DEPRECIATION EXPENSE (IS-7)**

5 **Q. PLEASE DESCRIBE THE COMPANY'S CALCULATION OF**  
6 **DEPRECIATION EXPENSE.**

7 A. This adjustment, designated as IS-7, recalculates depreciation expense utilizing  
8 the depreciation rates proposed for assets in Kansas and Shared Services. These  
9 rates were applied to the end-of-test-year balances of plant in service by plant  
10 account, thereby normalizing depreciation expense to be consistent with the level  
11 of plant in service at the end of the test year.

12 **Q. IS THE COMPANY PROPOSING TO CHANGE THE DEPRECIATION**  
13 **RATES?**

14 A. Yes. The Company's current depreciation rates were authorized in Docket 08-  
15 ATMG-280-RTS. Company witness Watson supports the Company's request to  
16 update depreciation rates. Mr. Watson has performed a depreciation study related  
17 the shared service assets and a separate study for the Kansas direct assets.

18 **Q. IS THE REQUESTED CHANGE IN DEPRECIATION RATES A**  
19 **SIGNIFICANT DRIVER IN THIS CASE?**

20 A. Yes. The request to change depreciation rates accounts for 37% of the  
21 Company's total requested change in base rates. The proposed depreciation rates  
22 increase the filing a net of \$3.6 million (\$3.98 million increase for direct; \$401  
23 thousand decrease for shared services).

1 **Q. HOW DOES THE OVERALL INCREASE COMPARE TO THE**  
2 **COMPANY'S LAST PROPOSED CHANGE IN RATES?**

3 A. The Company's last filing was \$6.0 million. If the Company's depreciation  
4 proposal were excluded from this case, the request would be \$6.1 million. The  
5 point being, the overall case appears bigger but in reality is somewhat similar to  
6 the Company's last two base rate cases.

7

8 **VII. CAPITAL STRUCTURE/IMBEDDED COST OF LONG-TERM DEBT**

9 **Q. HOW IS ATMOS ENERGY ORGANIZED?**

10 A. Atmos Energy conducts utility operations in twelve states through unincorporated  
11 divisions. The Company division relevant here is commonly referred to as the  
12 Colorado/Kansas Division.

13 **Q. DO THE COMPANY'S UNINCORPORATED DIVISIONS ISSUE THEIR**  
14 **OWN DEBT OR EQUITY?**

15 A. No. These divisions, including the Colorado/Kansas Division, are not separate  
16 legal entities. Instead, these unincorporated divisions are part of the legal entity  
17 that is Atmos Energy Corporation. Therefore, all debt or equity funding of the  
18 operations performed by the utility divisions must be (and is) issued by Atmos  
19 Energy as a whole, on a consolidated basis.

20 **Q. WHAT CAPITAL STRUCTURE SHOULD BE USED IN THIS**  
21 **PROCEEDING?**

22 A. Although this proceeding only affects the rates that may be charged by the  
23 Company in its service area in Kansas, the appropriate capital structure for each

1 of the Atmos Energy utility operating divisions, including the Colorado/Kansas  
2 Division, is the consolidated capital structure for Atmos Energy as a whole. The  
3 use of the Atmos Energy consolidated capital structure is appropriate for use in  
4 setting rates for the Company's Kansas customers because Atmos Energy  
5 provides the debt and equity capital that supports the assets serving those  
6 customers.

7 **Q. HAS THE COMPANY RELIED ON THE CONSOLIDATED CAPITAL**  
8 **STRUCTURE OF ATMOS ENERGY IN THIS PROCEEDING?**

9 A. Yes. To develop proposed rates for its Kansas customers the Company utilized a  
10 capital structure for Atmos Energy based on the thirteen month average of the  
11 long-term debt and equity components ending with the September 30, 2011  
12 capital structure.

13 **Q. HOW DID YOU CALCULATE THE CAPITAL STRUCTURE FOR USE**  
14 **IN THIS PROCEEDING?**

15 A. For this proceeding I averaged the month ending long-term debt and equity capital  
16 structure components for the thirteen months ending September 30, 2011. This  
17 results in a capital structure as shown in the table below.

18

<u>Long-Term Debt</u>	<u>Shareholder Equity</u>	<u>Total</u>
\$2,150,136	\$2,297,955	\$4,448,091
48.34%	51.66%	100.0%

19 *Amounts shown are in 000s*

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1 I excluded from this calculation any impact from short-term debt because the  
2 Company's use of short-term debt is seasonal in nature and is not intended to be  
3 used to finance additions to utility plant.

4 **Q. HOW DOES THE THIRTEEN MONTH AVERAGE CAPITAL**  
5 **STRUCTURE COMPARE TO THE ACTUAL CAPITAL STRUCTURE**  
6 **RATIOS AT THE END OF THE TEST YEAR IN THIS PROCEEDING?**

7 A. As reported in the Company's annual report on Form 10-K filed with the  
8 Securities and Exchange Commission for the fiscal year ended September 30,  
9 2011, the Company's capital structure is as follows:

<u>Long-Term</u> <u>Debt</u>	<u>Short-Term</u> <u>Debt</u>	<u>Total Debt</u>	<u>Shareholder Equity</u>	<u>Total</u>
\$2,208,551	\$206,396	\$2,414,947	\$2,255,422	\$4,670,369
47.29%	4.42%	51.71%	48.29%	100.0%

10 *Amounts shown are in 000s*

11 Since short-term debt is not a part of the Company's permanent capital structure I  
12 then excluded short-term debt from the calculation which resulted in a capital  
13 structure as follows:

<u>Long-Term Debt</u>	<u>Shareholder Equity</u>	<u>Total</u>
\$2,208,551	\$2,255,422	\$4,463,973
49.48%	50.52%	100.0%

14 *Amounts shown are in 000s*

15 By comparing the test year ending capital structure percentages to the average  
16 capital structure percentages I am able to confirm the appropriateness of the  
17 thirteen month average capital structure for use in this proceeding.

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY ON CAPITAL**  
2 **STRUCTURE.**

3 A. I am recommending a capital structure composed of 48.34% long-term debt and  
4 51.66% equity in setting rates for the Company's Kansas customers in this  
5 proceeding. This capital structure is reasonable because it is reflective of the  
6 average capital structure over the test period.

7 **Q. WHAT RATE DO YOU PROPOSE FOR THE EMBEDDED COST OF**  
8 **DEBT CAPITAL IN SETTING RATES IN THIS CASE?**

9 A. As shown in the calculation on WP 7A, I recommend a 6.52% weighted average  
10 cost of long-term debt. This is the weighted average cost of long-term debt as of  
11 September 30, 2011, the end of the test period adjusted for the repayment of \$2.3  
12 million in long-term debt in December of 2011.

13 **Q. WHY IS THE APPROPRIATE IMBEDDED LONG-TERM DEBT RATE**  
14 **AT PERIOD END MORE APPROPRIATE THAN THE 13-MONTH**  
15 **AVERAGE RATE OF 6.79%?**

16 A. The Company was able to refinance maturing long-term debt in June 2011 at rates  
17 more favorable than the long-term debt being replaced. The 13-month average  
18 calculation contains the impact of this higher cost debt. Since it is no longer  
19 outstanding, the period end rate is the more appropriate rate to utilize in this  
20 proceeding.

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1 **VIII. PENSION TRACKER**

2 **Q. PLEASE EXPLAIN THE ADJUSTMENT FOR THE AMORTIZATION OF**  
3 **ATMOS' DEFERRED OTHER POST EMPLOYMENT BENEFITS (OPEB)**  
4 **EXPENSE (IS-15).**

5 A. As a result of the Commission Order issued in Docket No. 10-ATMG-495-RTS  
6 ("10-495 Docket"), Atmos was required to defer, as a regulatory asset or liability  
7 as the case may be, the difference between the level of pension, post retirement,  
8 and post employment costs incurred under GAAP and the amount of such  
9 expenses recovered through base rates with no carrying costs permitted. Under  
10 the 10-495 Docket Settlement, in future rate proceedings, Atmos is required to  
11 amortize the cumulative difference over a reasonable period of time not to exceed  
12 five years.

13 **Q. HOW WAS THE ADJUSTMENT CALCULATED?**

14 A. Workpaper 9-9 compares the amount of expense included in base rates currently  
15 for OPEB expense to the actual cost incurred since implementation of rates in  
16 August of 2010. In order to minimize the impact of the difference on future  
17 proceedings, I included in workpaper 9-9 periods through September 2012 (the  
18 time rates will go in effect if this proceeding goes the full statutory time).

19 **Q. HOW WAS THE AMORTIZATION PERIOD, SHOWN ON WORKPAPER**  
20 **9-9, OF THREE YEARS DETERMINED?**

21 A. The three-year amortization period falls within the time frame allowed by the  
22 Commission. Since the utility is not allowed to earn a return on the deferred  
23 amount, a period shorter than five years should be used. In addition, at least one

1 other utility has proposed using a three-year amortization period regarding OPEB  
2 expense.

3 **Q. IN ADDITION TO APPROVING THE INCLUSION OF THIS**  
4 **AMORTIZATION IN THE REVENUE REQUIREMENTS MODEL, IS**  
5 **ATMOS SEEKING ANY FURHTER DIRECTIVE FROM THE**  
6 **COMMISSION WITH REGARDS TO FUTURE DEFERALS?**

7 A. Yes. The level of OPEB expense ultimately included in the approved base rates  
8 in this proceeding should be identified, similar to Ad Valorem expense being  
9 identified in prior Atmos Energy proceedings, so that the parties are clear as to  
10 what expense level is to be used in calculating future deferral amounts.

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12 **IX. COMPANY OWNED STORAGE**

13 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO MOVE**  
14 **INVESTMENT AND RELATED COST IN COMPANY OWNED**  
15 **STORAGE TO RECOVERY THROUGH THE PURCHASED GAS**  
16 **ADJUSTMENT TARIFF.**

17 A. The Company proposes to move recovery of costs related to the investment and  
18 related operating expenses for Company owned storage from recovery in base  
19 rates to recovery via the Company's PGA tariff. As shown in Exhibit JTC-1, the  
20 investment and related costs make up approximately \$1.3 million in total revenue  
21 requirement. The investment and costs identified in Exhibit JTC-1 would be  
22 tracked separately and included in PGA filings for recovery in a manner similar to  
23 other upstream gas transportation and storage costs.

1 **Q. WHY IS THE COMPANY PROPOSING TO CHANGE HOW THESE**  
2 **COSTS ARE RECOVERED?**

3 A. As mentioned in the testimony of witness Armstrong, Company owned storage is  
4 not a normal LDC operation within Atmos Energy. While Atmos Energy does  
5 own some storage capacity in Kentucky and Mississippi for its LDC operation  
6 and Texas for its Intrastate pipeline, the majority of its LDC operations obtain all  
7 upstream storage services from 3<sup>rd</sup> party providers.

8 **Q. HOW ARE STORAGE COSTS PROVIDED BY 3<sup>RD</sup> PARTY PROVIDERS**  
9 **RECOVERED?**

10 A. Through the Company's PGA tariff.

11 **Q. IF THE COMMISSION DID ADOPT THE COMPANY'S PROPOSAL,**  
12 **WOULD COMMISSION STAFF HAVE ANY WAY TO AUDIT COSTS**  
13 **RELATED TO COMPANY OWNED STORAGE?**

14 A. Yes. The costs related to Company owned storage would be included for review  
15 in the Company's annual PGA audit conducted by Staff and like all the other  
16 upstream transportation, storage, and commodity costs, the Company owned  
17 storage would be subject to having been prudently incurred.

18 **Q. HOW OFTEN WOULD THE COSTS BE CHANGED?**

19 A. The investment won't change much (only by reduction in depreciation expense),  
20 unless a compressor needs to be replaced or wells need to be worked over,  
21 therefore the Company would propose setting the investment and operating costs  
22 based on the historical period end balance for recovery over the subsequent  
23 twelve month period.

1 **Q. WOULD THIS ALLOW FOR DOUBLE RECOVERY?**

2 A. No. Like other items that have a reconciliation (ad valorem true-up), the initial  
3 recovery factor could be set to account for a short period to coincide with the  
4 implementation of other annual PGA factors.

5 **Q. WHAT WOULD HAPPEN IF THE COMPANY INVESTED IN A  
6 COMPRESSOR OR MAJOR WELL WORK OVERS?**

7 A. The higher investment would be accounted for when the next PGA cycle  
8 occurred.

9 **Q. WHAT HAPPENS IF COMPRESSOR FUEL EXPENSE GOES UP OR  
10 DOWN BETWEEN PGA CYCLES?**

11 A. The initial twelve month period operating costs would be set based on costs  
12 agreed to in this proceeding. Subsequent PGA cycles would reflect the actual  
13 costs incurred for the previous twelve months, thus only actual amounts incurred  
14 would be recovered from customers unlike today where cost could vary down  
15 following a rate case and the customer would not enjoy the benefit of the lower  
16 cost.

17 **Q. IF THE COMMISSION DID ADOPT THE COMPANY'S PROPOSAL,  
18 WHAT WOULD BE THE IMPACT TO THIS PROCEEDING?**

19 A. The impact, as shown on page 1 of JTC-1, is a reduction to the Company's filing  
20 of approximately \$1.342 million

21 **Q. IF THE COMMISSION DID ADOPT THE COMPANY'S PROPOSAL,  
22 WHAT TARIFF CHANGES WOULD BE REQUIRED?**

1 A. A copy of the proposed PGA tariff is included in Section 18 of the filing package.  
2 As shown on Schedule V Purchased Gas Adjustment Tariff Section 1 (B) 1. (Page  
3 2 of Schedule V), the formula would be updated to add a "C" factor to reflect the  
4 costs of Company owned storage.

5 **Q. WOULD SCHEDULE V SECTION 1 (E) (PAGE 4 OF SCHEDULE V)**  
6 **NEED TO BE MODIFIED?**

7 A. With approval of inclusion of Company owned storage costs for recovery in the  
8 PGA, the Company would propose to credit the appropriate natural FERC  
9 accounts and debit the same accounts that would be debited when an invoice is  
10 paid to a 3<sup>rd</sup> party, thus no new additional accounts would be included in the list  
11 of accounts under Schedule V, Section 1 (E).

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

13 A. Yes.

VERIFICATION

STATE OF TEXAS

§

COUNTY OF DALLAS

§

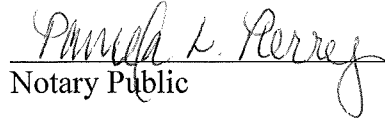
§

Joe T. Christian, being duly sworn upon his oath, deposes and states that he is the Director of Rates & Regulatory Affairs 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.



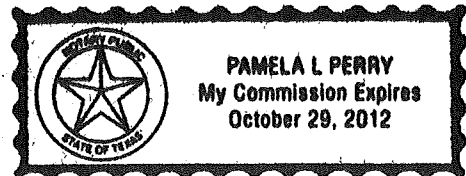
Joe T. Christian

Subscribed and sworn before me this 19<sup>th</sup> day of January, 2012.



Notary Public

My appointment expires: 10-29-12



**Atmos Energy Corporation**  
**Kansas Distribution System**  
**Summary of Rate Base, Operating Income and Rate of Return**  
**Test period ended September 30, 2011**

Line No.	Description (a)	Reference (b)	Total Adjusted KS Juris (c)
1	Rate Base:		
2	Plant In Service	Section 4	\$ 5,932,723
3	Accumulated Depreciation	Section 5	(3,810,831)
4	Net Plant in Service	(Ln. 2+3)	\$ 2,121,893
5	Construction Work in Progress	Section 14A	
6			
7	Working Capital	Section 6	
8	Prepayments		\$ -
9	Storage Gas		0
10	Cash Requirements		0
11	Total Working Capital	(Ln. 8+9+10)	\$ -
12			
13	Rate Base Deductions	Section 14A	
14	Customer Advances for Construction		\$ -
15	Customer Deposits		0
16	Accumulated Deferred Income Tax		
17	Total Rate Base Deductions	(Ln. 14+15+16)	\$ -
18			
19	Total Rate Base	(Ln. 4+5+11+17)	\$ 2,121,893
20			
21	Rate of Return on Rate Base, Proposed	Section 7	8.78%
22			
23	Return on Rate Base	(Ln. 19 * Ln. 21)	\$ 186,379
24	Operation & Maintenance Expense	Section 9	936,646
25	Depreciation & Amortization Expense	Section 10	143,006
26	Taxes Other Than Income Taxes	Section 11	
27	Interest on Customer Deposits	Section 14C	
28	Income Tax	Section 11	75,768
29			
30	Total Cost of Service	(Sum of Lns. 23-28)	\$ <u>1,341,799</u>





**Atmos Energy Corporation**  
**Kansas Distribution Systems**  
**Accumulated Depreciation Acct 108 - Kansas Direct and Allocated**  
**Balance as of September 30, 2011**

Line No.	Description	Property Type	Liberty Div 79	Kansas Div 81	Southwest Div Div 86	Asset Transfers	Total Kansas
<b>Kansas Direct Accumulated Depreciation by Functional Plant Account</b>							
14	<b>Underground Storage A/D</b>						
15	Rights-of-way	350.2	\$ 57,842	\$ -	\$ -	\$ -	57,842
16	Structures And Improv	351	30,470				30,470
17	Meas & Reg Structures	351.3	6,363				6,363
18	Other Structures	351.4	20,851				20,851
19	Wells	352	723,964				723,964
20	Leaseholds & Rights	352.1	(12,263)				(12,263)
21	Reservoirs	352.2	21,521				21,521
22	Pipeline	353	614,570			2,553	617,123
23	Compressor Equip	354	1,964,165				1,964,165
24	Meas & Reg Equip	355	131,709				131,709
25	Purification Equip	356	176,260				176,260
26	Other Equip	357	74,425			(1,598)	72,827
27	Total Underground Storage Plant		\$ 3,809,876	\$ -	\$ -	\$ 955	\$ 3,810,831

Atmos Energy Corporation  
 Kansas Distribution Systems  
 Operation and Maintenance Expenses  
 Twelve Months Ended September 30, 2011, As Adjusted

Line	Acct.						
No.	No.	Description	Source	Div 79	Div 81	Div 86	Total
(a)	(b)	(c)	(d)	(e)	(f)	(f)	(g)
1		<b>Production Expenses</b>					
2							
3		<b>B. Natural Gas Production Expenses</b>					
4							
5		<b>B.1 Natural Gas Production &amp; Gathering</b>					
6		<u>Operation</u>					
7	752	Gas Wells Expenses		\$ 39,461	\$ -	\$ -	\$ 39,461
8	759	Other Expense		-	-	-	-
9		Total Operation		\$ 39,461	\$ -	\$ -	\$ 39,461
10							
11		<u>Maintenance</u>					
12	764	Maintenance of Field Lines		\$ -	\$ -	\$ -	\$ -
13	767	Maintenance of Purification equipment		-	-	-	-
14		Total Maintenance		\$ -	\$ -	\$ -	\$ -
15							
16		<b>B.2 Products Extraction</b>					
17		<u>Maintenance</u>					
18	784	Maintenance Supervision and Engineering		\$ -	\$ -	\$ -	\$ -
19		Total Maintenance		\$ -	\$ -	\$ -	\$ -
20							
21		<b>1 Total Production Expenses</b>		\$ 39,461	\$ -	\$ -	\$ 39,461
22							
23		<b>2 Natural Gas Storage, Terminating and Processing Expenses</b>					
24							
25		<b>A. Underground Storage Expense</b>					
26	814	Operations Supervision and Engineering		\$ -	\$ -	\$ -	\$ -
27	815	Maps and Records		-	-	-	-
28	816	Wells Expense		651,328	128	-	651,456
29	818	Compressor Station Expense		-	-	-	-
30	819	Compressor Station Fuel and Power		112,899	-	-	112,899
31	824	Other Expenses		21,090	-	-	21,090
32	825	Storage Well Royalties		61,209	-	-	61,209
33		Total Underground Storage Expense		\$ 846,526	\$ 128	\$ -	\$ 846,654
34							
35		<u>Maintenance</u>					
36	830	Maintenance Supervision and Engineering		\$ -	\$ 174	\$ -	\$ 174
37	831	Maintenance of structures and improvements		117	-	-	117
38	832	Maintenance of reservoirs and wells		2,292	1,141	-	3,432
39	834	Maintenance of compressor station equipment		15,570	2,719	-	18,289
40	836	Maintenance of Purification equipment		16	-	-	16
41		Total Maintenance		\$ 17,995	\$ 4,033	\$ -	\$ 22,028
42							
43		<b>B. Other Storage Expense</b>					
44		<u>Operation</u>					
45	841	Operation Labor and Expense		\$ 27,507	\$ 995	\$ -	\$ 28,502
46	842	Rents		0	-	-	-
47		Total Operation		\$ 27,507	\$ 995	\$ -	\$ 28,502
48							
49		<b>2 Total Natural Gas Storage, Terminating and Processing Expenses</b>		\$ 892,029	\$ 5,156	\$ -	\$ 897,185
50							
51							
52		Total Production & Gathering and Storage				\$	\$ 936,646

Kansas Distribution System  
 Depreciation Adjustment  
 As of test period end September 30, 2011  
 Kansas Direct Plant

Line No.	Description (a)	Property Type (b)	Balance at 9/30/11 (c)	Amortization Retirements [2] (d)	Non-Depreciable Plant (e)	Fully & Depreciable Plant (f)	Current Depreciation Rates			Recommended Depreciation Rates		
							Depreciation Rates (g)	Pro-Forma Depreciation Expense (h)	Pro-Forma Capitalized Depr Exp (i)	Depreciation Rates (j)	Pro-Forma Depreciation Expense (k)	Pro-Forma Capitalized Depr Exp (l)
<b>Intangible Plant</b>												
1	Franchises & Consents	30200	\$ 37,160	\$ -	\$ 37,160	\$ -	0.00%	\$ -	\$ -	0.00%	\$ -	\$ -
2	Misc. Intangible Plant	30300	3,918	-	3,918	0	0.00%	-	-	0.00%	-	-
3	<b>Total Intangible Plant</b>		<b>\$ 41,078</b>	<b>\$ -</b>	<b>\$ 41,078</b>	<b>\$ -</b>	<b>0.00%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>	<b>\$ -</b>	<b>\$ -</b>
4												
<b>Storage Plant</b>												
5	Land	35010	\$ 49,164	\$ -	\$ 49,164	\$ -	0.00%	\$ -	\$ -	0.00%	\$ -	\$ -
6	Rights-of-way	35020	568,935	-	568,935	568,935	3.05%	17,353	-	1.76%	10,013	-
7	Well Structures	35100	102,923	-	102,923	102,923	2.18%	2,244	-	2.13%	2,192	-
8	Wells	35200	1,136,225	-	1,136,225	1,136,225	4.62%	52,494	-	2.15%	24,429	-
9	Reservoirs	35202	36,515	-	36,515	0	3.09%	-	-	3.09%	-	-
10	Leaseholds	35210	0	-	0	0	3.00%	-	-	3.00%	-	-
11	Pipelines	35300	1,145,818	-	1,145,818	1,145,818	2.32%	26,583	-	2.36%	27,041	-
12	Compressor Station Equipment	35400	2,259,430	-	2,259,430	2,259,430	4.02%	90,829	-	2.90%	65,523	-
13	Meas. & Reg. Equipment	35500	220,011	-	220,011	220,011	4.69%	10,319	-	2.72%	5,984	-
14	Purification Equipment	35600	288,382	-	288,382	288,382	4.37%	12,602	-	1.80%	5,191	-
15	Other Equip	35700	125,321	-	125,321	125,321	3.07%	3,847	-	2.10%	2,632	-
16	<b>Total Storage Plant</b>		<b>\$ 5,932,723</b>	<b>\$ -</b>	<b>\$ 5,856,799</b>	<b>\$ 5,847,044</b>	<b>3.70%</b>	<b>\$ 216,270</b>	<b>\$ -</b>	<b>2.45%</b>	<b>\$ 143,006</b>	<b>\$ -</b>
17												

**Kansas Distribution System  
Computation of Income Taxes  
Twelve Months Ended September 30, 2011, As Adjusted**

Line No.	Description (a)	Total (b)
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**After Adjustments:**

9	Required Return     Section 3A	\$	186,379
10	Interest Deduction     WP 11B		66,877
11	Equity Portion of Return		119,502
12	Application of Composite Tax Rate to NIB1		47,302
13	Allowance for Step Rate		(1,525)
14	Sub-Total		45,777
15	Tax Expansion Factor		1.6551
16	Total Income Tax Liability	\$	75,768
17			
18	Income Tax Adj.	\$	75,768 <b>IS-12</b>

19	State Tax Rate		7.05%
20	Federal Tax Rate		35%
21	Combined Tax Rate		39.583%

**Source: See Relied file 11b - (Provided in response to DR 1)**

**Atmos Energy Corporation**  
**Kansas Distribution System**  
**Computation of Pro-forma Interest Expense, LT Debt**  
**Test Year Twelve Months Ended September 30, 2011**

Line No.	Description (a)	Source	Total KS (b)
1	Rate Base (before Adjustments)	Section 3	\$ 2,121,893
2	Debt Percentage of Capital Structure	Section 7	<u>48.34%</u>
3			
4	Debt portion of Rate Base		\$ 1,025,723
5	Long Term Debt rate	Section 7	6.52%
6			
7	Interest Expense, LT Debt		<u>\$ 66,877</u>
8			
9	Rate Base Adjusted	Section 3	\$ 2,121,893
10	Debt Percentage of Capital Structure	Section 7	<u>48.34%</u>
11			
12	Debt portion of Rate Base		\$ 1,025,723
13	Long Term Debt rate	Section 7	6.52%
14			
15	Interest Expense, LT Debt		<u><u>\$ 66,877</u></u>