BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION	)	
OF ATMOS ENERGY CORPORATION	)	Docket No.
FOR REVIEW AND ADJUSTMENT OF ITS	)	19-ATMG-525-RTS
NATURAL GAS RATES	)	

DIRECT TESTIMONY OF GARY W. GREGORY

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I. INTRODUCTION AND PURPOSE OF FILING

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS AND DESCRIBE YOUR ROLE AT ATMOS ENERGY CORPORATION.

A. My name is Gary W. Gregory. My business address is 1555 Blake Street, Suite 400, Denver, Colorado 80202. I am the President of the Colorado/Kansas Division of Atmos Energy Corporation[1] ("Atmos Energy" or the "Company"). I oversee the provision of natural gas service to 256,487 customers in 174 communities and 7,235 miles of pipe over two states. Attached as Exhibit GWG-1 is my professional biography and employment history.

Q. PLEASE BRIEFLY DESCRIBE ATMOS ENERGY'S KANSAS GAS OPERATIONS.

A. In Kansas, Atmos Energy serves approximately 135,000 customers in 110 communities located in 32 counties. The communities are spread throughout the state. In the Kansas City metropolitan area, the Company serves Olathe, Bonner Springs, DeSoto and portions of Kansas City, Overland Park, Shawnee, Lenexa and Lawrence. In Southeast Kansas, the Company serves Independence, Coffeyville and Yates Center. In Central Kansas, the Company serves Council Grove and Herington. In South Central and Northwest Kansas, the Company serves Anthony

[1] Atmos Energy is the largest fully regulated pure natural gas distribution company in the United States. The Company delivers natural gas to approximately 3.2 million residential, commercial, industrial and public-authority customers in eight states. Atmos Energy has six unincorporated gas utility operating divisions headquartered in Lubbock, Texas (West Texas division); Dallas, Texas (Mid-Tex division); Denver, Colorado (Colorado/Kansas division); Baton Rouge, Louisiana (Louisiana division); Jackson, Mississippi (Mississippi division); and Franklin, Tennessee and Owensboro, Kentucky (Kentucky/Mid-States division). In addition, Atmos Energy has an operating division, Atmos Pipeline - Texas, headquartered in Dallas, Texas which consists of a regulated intrastate pipeline that operates only within Texas.

and South Haven, near Wichita, and Ness City. In Southwest Kansas, the Company serves Ulysses and Johnson City. Attached as Exhibit GWG-2 is a map of our Kansas service territory.

Atmos Energy's active Kansas customer base consists of approximately 125,000 residential customers, 9,800 commercial and public authority customers, 15 industrial customers, 258 irrigation customers and 450 transportation customers. The Company's utility plant includes 4,105 miles of transmission and distribution mains and 151,670 service lines.

Q. WHAT IS THE PURPOSE OF THIS FILING?

A. The purpose of this filing is to request the regulatory treatment that will support the needed pace of increased systematic risk-based safety-related investment in Atmos Energy's system. This regulatory treatment must include two primary features -- (1) a mechanism for timely recovery of Atmos Energy's risk-ranked safety-related capital investments and (2) a rate of return that allows the Company to attract the capital necessary to make these investments.

To this end, the filing has two main requests. First, Atmos Energy is seeking in this filing to incorporate into its rate structure a pilot System Integrity Program ("SIP") Mechanism to reduce regulatory lag and provide the Company the financial support to replace this infrastructure at an increased pace. Second, this application requests an adequate return on equity that will also provide financial support in conjunction with reduced lag to allow the Company to finance the essential improvements to safety and reliability related infrastructure.

The filing also seeks a general increase in revenues to reflect the Company's actual cost of service to serve its Kansas customers, which is primarily driven by safety-related infrastructure investments placed in service since our last general rate case.

Q. PLEASE PROVIDE A BRIEF BACKGROUND OF THE HISTORY OF NATURAL GAS SYSTEM INTEGRITY INVESTMENT POLICY IN THE STATE OF KANSAS.

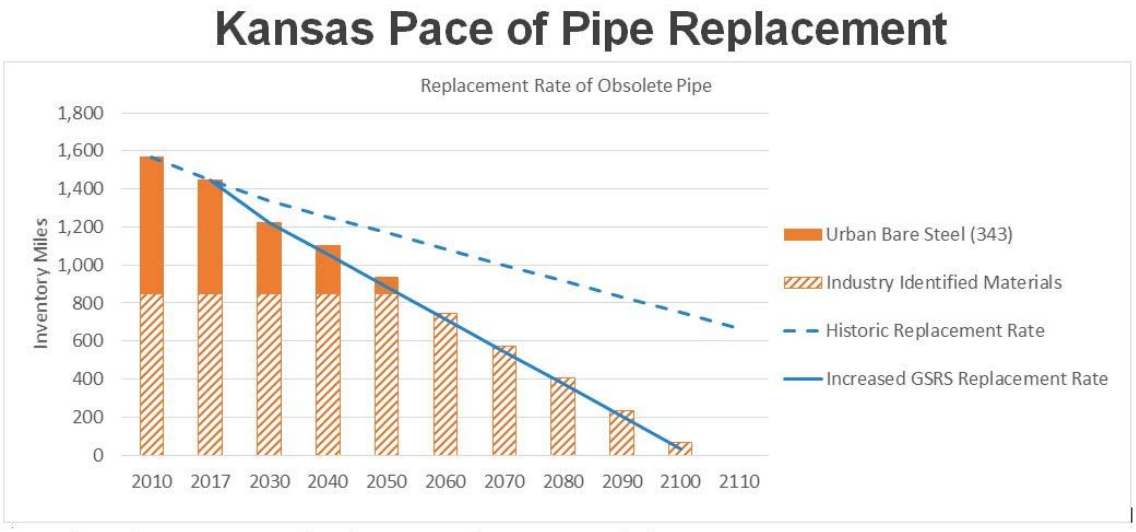
A. The Kansas Corporation Commission (the "Commission") and the Kansas Legislature have taken very seriously the Call to Action issued by United States Secretary of Transportation Ray LaHood on March 28, 2011, seeking to engage state regulators, technical experts, and pipeline operators in identifying pipeline risks and repairing, rehabilitating and replacing the highest risk infrastructure. The Commission, in conjunction with the utilities and other stakeholders such as the Citizens' Utility Ratepayer Board ("CURB"), has been examining and considering the necessity of increased safety-related infrastructure investment for many years now and has concluded in its orders that such investment on an accelerated time line is necessary for the safety of Kansas customers. In fact, the Commission's Order in Docket No. 15-GIMG-343-GIG (the "343 Docket") expressed a desire to have certain types of high-risk infrastructure replaced within a ten-year time-frame.[2] In addition, in Atmos Energy's last rate case, the parties agreed that a system integrity program that provided adequate regulatory treatment to accelerate safety-related investments was in the public interest. While the Commission's proposal for Accelerated Pipeline Replacement in the 343 Docket is not usable for

[2] Final Order dated Sept. 12, 2017, Docket No. 15-GIMG-343-GIG, at ¶¶ 91, 98.

Atmos Energy, we appreciate the Commission's recognition of the importance of this issue, and we are making this filing seeking a solution to achieve the mutual goal of accelerating the pace of safety-related investment in Atmos Energy's system.

Q. WITHOUT THE RELIEF REQUESTED IN THIS FILING, WHAT IS THE PROJECTED AVERAGE PACE OF PIPE REPLACEMENT FOR ATMOS ENERGY IN THE STATE OF KANSAS?

A. The chart below shows the pipeline replacement rate, taking into account all industry identified high-risk materials that merit accelerated replacement. As the chart shows, even with the increased recoverability of capital investment allowed through an expanded GSRS mechanism, the estimated pace of replacement would not result in replacement of all *currently identified* high-risk assets until approximately the year 2100, which is not consistent with the Commission's expressed desire for a higher pace of replacement nor with the industry's view of the need for accelerated replacement.



Q. PLEASE GENERALLY DESCRIBE THE IMPACT OF THE OUTCOME OF THIS FILING ON THE SAFETY OF ATMOS ENERGY'S CUSTOMERS IN KANSAS.

A. The outcome of this filing has far-reaching implications as Atmos Energy strives to provide safe, reliable service to its customers in Kansas. A risk-based systematic approach to safety investments with a long-term view is necessary to ensure that our distribution system remains safe for decades to come. The current condition of the natural gas distribution system throughout the nation is a result of several decades of operational and policy decisions regarding the appropriate method for addressing near-term and long-term risk. The Commission's decision in this docket will influence operational and policy approaches to risk management that will impact natural gas safety in Kansas for decades. Though they may seem to be short-term decisions, they ultimately have a generational effect.

II. OVERVIEW OF ATMOS ENERGY'S APPLICATION FOR ADJUSTMENT OF NATURAL GAS RATES

Q. WHAT IS THE LEVEL OF THE COMPANY'S PROPOSED REVENUE INCREASE?

A. Atmos Energy is requesting an overall revenue increase of approximately $7.2 million which is the increase in base rates plus the rate case expense rider. The increase excludes moving or rebasing the $3.3 million currently collected through the Company's Gas System Reliability Surcharge Rider ("GSRS") into base rates and setting to zero as well as $1.4 million of the Company's Ad Valorem Tax Surcharge being adjusted into Ad Valorem Expense and collected in base rates going forward rather than through the Ad Valorm surcharge.

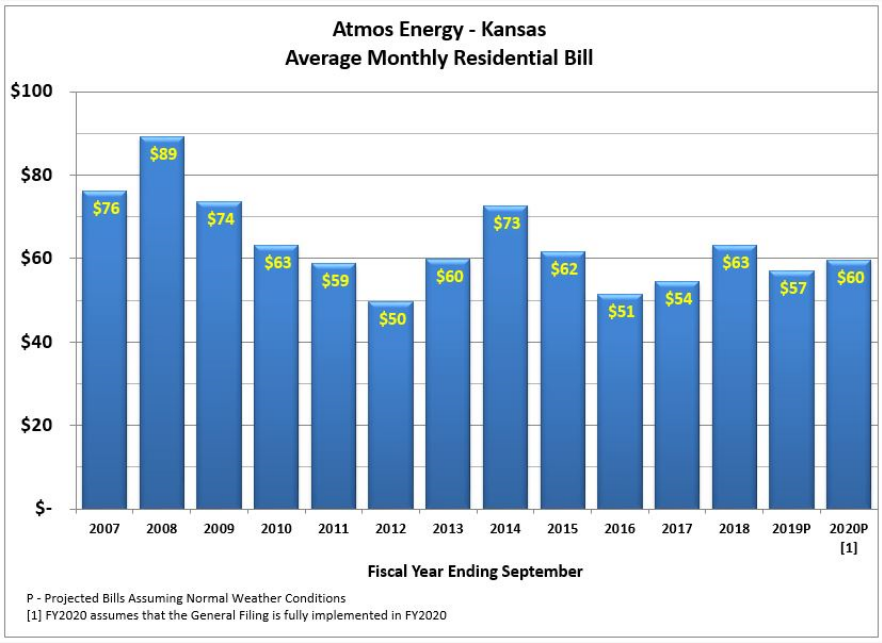
Q. HAS THE COMPANY EXAMINED THE IMPACT OF THE PROPOSED RATE INCREASE ON CUSTOMER BILLS?

A. Yes. The estimated impact of the revenue requirement increase on the average monthly bill of a residential customer is $5.00. If the Company's safety mechanism is approved, the resulting safety-related infrastructure investment will also have a modest, gradual annual impact to customer rates, the magnitude of which will depend upon the level of investment determined through this docket to be appropriate.

Q. IF THE PROPOSED RATE INCREASE IS GRANTED, HOW WOULD THE AVERAGE CUSTOMER BILL COMPARE TO AVERAGE CUSTOMER BILLS ON AN HISTORICAL BASIS?

A. Table GWG-1 below illustrates how the average customer bill after the proposed increase would compare to historical average customer bills.

TABLE GWG-1 - Comparison of Average Monthly Customer Bills 2007-2020



Q. WHAT DOES TABLE GWG-1 SHOW?

A. The table shows that if the Company's requested increase is granted without adjustment or reduction, the average Kansas monthly customer bill will continue to be significantly lower than the peak experienced during 2008. In this way, natural gas utility service remains affordable, both on an historical basis and in comparison to price changes in other household "necessities" over this time period.

Q. WITH CONSIDERATION TO THE HISTORICAL AVERAGE CUSTOMER BILL, WOULD GRANTING THE REQUESTED RELIEF IN THIS FILING BE CONSISTENT WITH THE PUBLIC INTEREST?

A. Yes. Atmos Energy invested $64.4 million in Kansas from 2016 to 2018, 82% of which has been in risk-based Distribution Integrity Plan safety-related infrastructure to promote the safe and reliable delivery of natural gas services to its Kansas customers. $32.1 million - or 50% of this safety-related investment - has been above and beyond that qualified for recovery through the Gas System Reliability Surcharge ("GSRS"). This investment also is about double the depreciation expense reflected in our rates. This level of spending has been necessary for the long-term safety of our customers and reliability of our system, but this level of investment without an enhanced method of cost recovery is not practicable sustainable.

Meanwhile, the average monthly customer bill since 2007 is $64, and granting the request in this case will result in an average residential customer bill of $60, demonstrating that our customers' natural gas bill remains as among the lowest in the household. Thus, granting the proposed rate increase balances

affordability, reliability, safety, and quality of service for our customers with rates sufficient to yield a reasonable return. As noted in my testimony above and in the direct testimony Dylan D'Ascendis Atmos Energy has not been able to earn such a return in Kansas under the current rate construct.

Q. WHAT ARE THE PRINCIPAL FACTORS REQUIRING ATMOS ENERGY TO FILE THIS RATE APPLICATION AT THIS TIME?

A. The rates currently in effect in Kansas do not allow us to earn our authorized return on equity or recover our cost of providing service to our Kansas customers. The main driver of the rate action is the Company's capital investment, primarily for system safety, which represents $3 million of the revenue deficiency. Other principal factors driving the deficiency include the critical need for the Company to improve its allowed return on its invested capital to access the capital markets on reasonable terms and facilitate continuing direct capital investment in the Kansas pipeline system, the need to update depreciation rates, and the increase in O&M expense to the Company.

The proposed net increase is needed to allow Atmos Energy to recover its cost of providing service to Kansas customers and to sustain its current pipe replacement activities within the State.

Q. YOU MENTIONED THAT ATMOS ENERGY HAS A NEED TO INVEST MORE IN SAFETY-RELATED INFRASTRUCTURE THAN IS RECOVERABLE THROUGH GSRS. ARE THERE CHARACTERISTICS SPECIFIC TO ATMOS ENERGY THAT DRIVE THAT NEED WHEN COMPARED TO OTHER KANSAS UTILITIES?

A. Yes. The characteristics of each utility's system are unique. The quantity and location of relatively higher risk assets in Atmos Energy's distribution system is different from the larger natural gas utility in Kansas. For example, Atmos Energy's service territory includes both a significant number of rural areas with low customer densities, as well as a significant amount of higher-density areas. Atmos Energy carefully monitors its system, devotes additional resources as necessary, and accelerates work when appropriate. This includes a comprehensive risk-based approach that specifies how Atmos identifies, assesses, prioritizes, and evaluates relative risks to the integrity of distribution lines and the manner in which those risks should be mitigated or eliminated. To maximize the benefits of this approach, the Company needs the flexibility to take into account a variety of risk factors, rather than making decisions focused primarily on the type of materials and age of the asset. 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.

Q. WHEN WAS THE COMPANY'S MOST RECENT GENERAL RATE PROCEEDING IN KANSAS?

A. The Company's most recent rate proceeding, in Docket No. 16-ATMG-079-RTS ("079 Docket"), was filed on August 13, 2015, and was based upon a 12-month test year ending March 31, 2015. The current rates went into effect April 1, 2016.

Q. WHY HAS ATMOS ENERGY WAITED THREE YEARS AFTER THOSE RATES WENT INTO EFFECT TO FILE ITS NEXT RATE CASE?

A. The Final Order in the 079 Docket was not entered until December 22, 2016. In that Order, the Commission ordered that "[t]he SIP tariff, rate-moratorium and abbreviated rate case provisions of the [Settlement Agreement] are denied" and preserved those issues for consideration in Docket 15-GIMG-343-GIG ("343 Docket"). As the main driver of the need for a general rate case were the capital investments that would be now addressed in the 343 Docket, Atmos Energy then focused its attention on pursuing a solution to its need for adequate cost recovery in that docket. The 343 Final Order was entered on September 12, 2017. For the reasons addressed further in the Direct Testimony of Gary Smith, the conclusion of the 343 Docket did not provide a viable cost recovery option for Atmos Energy. During 2018, Atmos Energy focused on expeditiously providing the benefits of the 2017 Tax Cuts and Jobs Act to its customers and the legislative process incorporating amendments to the Gas Safety and Reliability Policy Act (K.A.R. 66-2201 *et seq.*). Atmos Energy has now made its first filing pursuant to the provisions of the revised Act. While the amendments were a step in the right direction for Kansas, the cap of a $0.80 per month increase over the current effective GSRS

surcharge per residential customer, as illustrated in the direct testimony of Company witness Gary Smith, is insufficient for Atmos Energy to make and recover for needed safety-related capital investments to and in addition, comply with the order in 343 requiring the systematic accelerated replacement of bare steel mains and services in Class 3 locations. Therefore, the Company's option at this time is to file a general rate case and continue to work toward the type of rate recovery needed.

Q. IF THE RELIEF REQUESTED IN THIS CASE IS NOT GRANTED, DOES ATMOS ENERGY ANTICIPATE THE NEED TO FILE FREQUENT RATE CASES, AS HAS BEEN THE CASE HISTORICALLY?

A. Yes. If the Company is not granted a streamlined, timely approach for review, approval, and rate recovery of safety-related investments, Atmos Energy must instead file more frequent rate cases, request abbreviated rate cases, and file frequent GSRS filings.

Q. HAS THE COMMISSION PREVIOUSLY EXPRESSED CONCERN ABOUT THE FREQUENCY OF ATMOS ENERGY'S RATE CASES IN KANSAS?

A. Yes. In Paragraph 59 of the Final Order in the 320 Docket, the Commission expressed concern about customers' incurring rate case expenses in rate cases filed two years apart and indicated that in future rate case filings, it may inquire into whether a two-year interval for rate cases is reasonable and whether rate case expenses are prudently incurred when the rate cases are filed relatively close together.

Q. WHAT IS ATMOS ENERGY'S POSITION ON THIS ISSUE?

A. We understand the concern underlying the Commission's statements and agree that frequent rate cases are burdensome to the Staff, Commission, customers, and the Company. That is why Atmos Energy continues to work with the Commission to address the fact that it is not sound public policy to use general rate cases as the method for incorporating substantial safety-related investments into rates.

Atmos Energy's need to file recurring rate cases is primarily the product of the Company's continuing safety-related capital investment program in Kansas. As mentioned above, any increases experienced in O&M are primarily driven by safety-related costs, and Atmos Energy is proud of its record of managing O&M expense and capital investment while maximizing the effectiveness of both. As discussed by Company witness Smith, the rate structure in Kansas does not allow for timely recovery of these safety-related expenses, and the allowed rates of return on invested capital granted by the Commission in the last several rate cases have been very low in comparison to other local distribution companies in the United States. Over the years, these circumstances have made it especially difficult for the Company to invest significant amounts of new capital in Kansas without almost immediately seeking rate relief, especially given the significant regulatory lag built into the Kansas general rate case process.

Atmos Energy recognizes that general rate cases are resource-intensive for both the Commission and the Company and are ultimately costly to customers. This is especially true when these rate cases are driven by increasing investment in pipe replacement all parties have agreed is in the public interest. Atmos Energy

believes that the pilot SIP mechanism proposed in this case may reduce the need to file general rate cases within short intervals.

Q. IS ATMOS ENERGY CURRENTLY EARNING A REASONABLE RETURN ON ITS KANSAS OPERATIONS?

A. No. Atmos Energy is not earning a reasonable return under current rates. Atmos Energy's actual return on investment based upon the information contained in this rate application is 5.13%. Atmos Energy is requesting Commission approval to increase rates to allow it a reasonable opportunity to earn an overall return on its Kansas operations of 7.98%.

Q. HOW DOES THE 7.98% COMPARE TO WHAT THE COMMISSION AUTHORIZED IN APRIL OF 2016?

A. No rate of return was specified in the 079 Docket, but I do note that Staff's recommended rate of return on investment was 7.70%. Thus, even with two GSRS increases the Company has been unable to achieve a reasonable return on its investment as compared to Staff's last recommendation.

Q. BASED ON THE FOREGOING, HOW IS THE COMPANY PROPOSING TO INCORPORATE THE REQUESTED INCREASE INTO CUSTOMER RATES?

A. In order to collect the proposed revenue increase, Atmos Energy proposes to increase the Residential monthly Customer Charge by $3.96 and the Residential Consumption Charge by $0.01533. Atmos Energy proposes to increase the Commercial monthly Customer Charge by $7.90 and the Commercial Consumption Charge by $0.01214.

III. FEDERAL AND STATE REGULATORY DEVELOPMENTS THAT HAVE IMPACTED THE WAY NATURAL GAS UTILITIES MONITOR AND MANAGE THE SAFETY OF DISTRIBUTION SYSTEMS

Q. IN THE LAST DECADE, HOW HAS THE WAY NATURAL GAS UTILITIES MONITOR AND MANAGE NATURAL GAS DISTRIBUTION SYSTEMS CHANGED?

A. The most significant change has been the natural gas utilities' shift in response to federal and state regulatory initiatives toward proactively identifying, assessing, evaluating and prioritizing risks to the integrity of distribution systems. Prompted by fatal explosions caused by natural gas pipeline failures in Allentown, Pennsylvania and San Bruno, California, United States Secretary of Transportation Ray LaHood, issued a Call to Action on March 28, 2011 seeking to engage state regulators, technical experts, and pipeline operators in identifying pipeline risks and repairing, rehabilitating and replacing the highest risk infrastructure. Additionally, the Call to Action called on pipeline operators and owners to evaluate the condition of their pipelines and quickly repair or replace sections in poor condition. Since that time, the Pipeline and Hazardous Material Safety Administration ("PHMSA") has implemented a series of regulations that reflect new industry standards operators must follow to promote the safety of their systems. State regulators have been charged with enforcing these regulations and have in many cases adopted even more stringent requirements. It should be noted that, in addition to including prescriptive, detailed requirements, the regulations also require operators to use their discretion to make operational and investment decisions to address safety

issues to the best of their ability based on the specific circumstances and characteristics of their systems.

In addition, both federal and state rate regulators have recognized and supported this need for accelerated safety-related investment. For example, the Federal Energy Regulatory Commission ("FERC") issued a Policy Statement in 2015 addressing cost recovery mechanisms for modernization of interstate natural gas facilities in FERC Docket No. PL15-1-000. The Policy Statement states that FERC has established a policy allowing interstate natural gas pipelines to seek recovery of certain capital expenditures made to replace infrastructure through a surcharge mechanism. On page 1 of its Policy Statement, FERC stated clearly that its intent is to "provide greater certainty regarding the ability of interstate natural gas pipelines to recover the costs of modernizing their facilities and infrastructure to enhance the efficient and safe operations of their systems." The National Association of Regulatory Utility Commissioners ("NARUC") issued a resolution in 2013 encouraging state commissions to "consider adopting alternative rate recovery mechanisms as necessary to accelerate the modernization, replacement and expansion of the nation's natural gas pipeline systems." All but three states have now adopted or enhanced accelerated infrastructure replacement programs which include cost recovery since Secretary LaHood's Call to Action.

Q. DOES THE REGULATORY CLIMATE IMPACT A NATURAL GAS UTILITY'S ABILITY TO PROACTIVELY INVEST IN ITS DISTRIBUTION SYSTEM?

A. Yes, the regulatory climate in a jurisdiction is considered by both debt and equity investors when evaluating a natural gas utility's forecasted investments in that jurisdiction. A negative regulatory climate would make it harder for a utility to access capital markets to fund investments in its distribution system.

Q. HAS ATMOS ENERGY BEEN SUCCESSFUL IN RECEIVING RATEMAKING TREATMENT THAT SUPPORTS INVESTMENT IN ITS DISTRIBUTION SYSTEM?

A. Yes. Since 2010, Atmos Energy has been able to expand its infrastructure investment through various processes developed through rulemaking proceedings or Company-specific dockets in each of the eight states in which the Company operates. In Kansas, however, the relief afforded to the Company in this regard, in the form of an expanded GSRS and the Commission's ARP mechanism, has been insufficient to fully support our ongoing integrity related capital expenditures. In Texas and Louisiana, the Company is able to achieve recovery of our infrastructure investment costs through our annual formula rate proceedings. In Mississippi, the Company has been able to elevate capital spending through our annual, forward-looking formula ratemaking tariffs. In Tennessee, the Company has a comprehensive annual ratemaking mechanism which considers all capital investment and expenses on a forward looking basis, including, infrastructure replacement. In Colorado, Kentucky (forward-looking), and Virginia, the

Company has specific infrastructure surcharges that address relatively high-risk assets. As discussed in Mr. Smith's testimony, all of these mechanisms substantially reduce regulatory lag associated with integrity related investments thereby supporting robust facilities refurbishment programs in those states. And while the expanded GSRS mechanism is an important step in the right direction, the non-viability of the ARP mechanism and the inherit limits on the GSRS mechanisms leave Kansas in a very different position in terms of the practical support for the common goal of enhanced system integrity investment.

Q. PLEASE DESCRIBE FURTHER THE MECHANISM THAT HAS BEEN APPROVED FOR THE COLORADO-KANSAS DIVISION IN THE STATE OF COLORADO.

A. The Colorado Public Utilities Commission has approved the use of a System Safety and Integrity Rider ("SSIR") to enable the Company to reflect capital investment to improve system safety in its rates without the need for filing a general rate case. Each fall, the Company files a list of proposed projects for the upcoming calendar year. The Commission issues an order approving those projects and puts an SSIR rate into effect on January 1st of each year that reflects the anticipated rate to recover the costs and investments associated with the approved projects. In the spring of each year, the Company files a "rate true-up" reflecting any variations in the actual costs and timing of the safety-related projects from the previous calendar year and any over or under collection is reflected in the following year's SSIR rate. The use of the SSIR mechanism in Colorado has enabled the Company to undertake more safety-related projects than it otherwise would have been able to support.

Q. IS ATMOS ENERGY'S KANSAS PIPELINE SYSTEM IN IMMEDIATE JEOPARDY?

A. Based on what we know today, Atmos Energy's natural gas pipeline system in Kansas is not in imminent danger of catastrophic failure. However, a systematic, proactive approach to accelerated pipeline replacement is necessary *now* to maintain the level of safety to which Atmos Energy is committed *over the long-term*. As pipe ages, the likelihood of pipeline failure increases, also increasing the likelihood of an occurrence of pipeline failure. For this reason, delaying pipe replacement until there is an imminent threat to public safety is not appropriate public policy, nor is it consistent with the goals conveyed by the Commission in the 343 Docket, nor the vision of Atmos Energy.

Q. IS IT POSSIBLE AND IN THE PUBLIC INTEREST FOR ATMOS ENERGY TO IMPROVE SYSTEM SAFETY AND RELIABILITY IN KANSAS?

A. Yes. By having the ability to proactively monitor, maintain and replace pipeline infrastructure, Atmos Energy can improve system safety and minimize the risk of incidents. Atmos Energy's goal is to work collaboratively with the Commission to allow the Company to undertake activities that serve the interests of Atmos Energy's customers, the communities in which they live and the broader Kansas public.

Q. WOULD APPROVAL OF A SIP MECHANISM ENHANCE SYSTEM SAFETY?

A. Yes. The Commission's support of a program for accelerated infrastructure replacement would make Atmos Energy's Kansas system safer. The proposed SIP

mechanism would strengthen the Company's ability to continue to provide safe and reliable service to the citizens of Kansas and to work toward a systematic approach to risk based safety-related infrastructure investment going forward. I would specifically note that each of the Company's existing replacement programs in its other jurisdictions have been specifically tailored to meet the legal and other regulatory requirements of that jurisdiction. The Company recognizes the importance of tailoring its program to the policy goals of the State of Kansas and is committed to working cooperatively with its regulators to similarly satisfy Kansas-specific legal and regulatory requirements.

Q. WHY IS IT IMPORTANT FOR THE COMMISSION TO ADDRESS THE NEED FOR AN INFRASTRUCTURE REPLACEMENT MECHANISM NOW?

A. In addition to my foregoing testimony, I want to specifically point out that the challenge of proactively addressing safety concerns on a natural gas distribution system is a complex and major undertaking. It is not practical or desirable to delay needed system enhancements and improvements until an incident occurs and then later attempt to "make up" for lost time. In order to properly update and maintain the 4,105 miles of transmission and distribution lines and 151,670 service lines that the Company operates in Kansas, it is important to systematically conduct and develop pipeline replacement activities year after year. For reasons addressed more fully in the Direct Testimony of Mr. Bart Armstrong, the Company will explain that due to factors such as permitting, contractor availability, and time, there are limits to how much work can be done in any year, and to the extent that a year goes by

without a mechanism to facilitate system improvements, that time is irrevocably lost.

Q. IN WHAT OTHER WAYS COULD THE COMMISSION HELP ATMOS ENERGY TO ENSURE THE CONTINUING RELIABILITY AND SAFETY OF ITS DISTRIBUTION SYSTEM?

A. In addition to approving a mechanism that will facilitate the Company's efforts to replace aging infrastructure, the most impactful support would be to allow Atmos Energy to protect its financial soundness as it undertakes these investments. In evaluating a utility's risk profile and assessing its credit quality, equity analysts and ratings agencies closely scrutinize the regulatory environments of the jurisdictions in which the utility operates. In a May 18, 2015 research report entitled Assessing U.S. Investor-Owned Utility Regulatory Environments, ratings agency Standard & Poor's stated, "We regard jurisdictions that require regulators to protect utilities' financial soundness and have transparent policies and procedures as the most credit-supportive. We ascribe higher risk in jurisdictions where policies and procedures support financial integrity, but where inconsistency can selectively arise."

Further, in Standard and Poor's most recent report on Atmos Energy, the ratings agency specifically noted the Company's "timely cost recovery to support credit profile." The report further noted that "Many, but not all of [Atmos Energy's] jurisdictions provide for the use of . . . accelerated capital recovery mechanisms, which lend support to cash flow stability".

Q. AS THE PRESIDENT OF THE COMPANY'S COLORADO/KANSAS DIVISION, WHAT CONCLUSION DO YOU DRAW FROM STATEMENTS LIKE THIS?

A. It is clear that analysts and ratings agencies ascribe great importance to regulatory outcomes in evaluating the utilities' financial health and determining their credit quality. Consequently, approval of the financial aspects of an accelerated infrastructure plan is as important as the operational specifics.

Q. DO YOU HAVE ANY FINAL THOUGHTS ON THIS ISSUE?

A. Yes. Utilities are operating in an environment that has changed drastically since 2010 and the support of regulators is critical to meeting the industry's infrastructure challenges. As I noted earlier, all but three states have now adopted accelerated infrastructure replacement programs which include cost recovery since Secretary LaHood's Call to Action. Some states that had pre-existing programs have enhanced them in response to the Call to Action. This illustrates that the majority of state commissions and natural gas utilities in the Unites States recognize that we are no longer in a position to simply rely on past practices to address infrastructure challenges and that enhanced efforts at pipe replacement and system integrity management are now required to maintain a safe and reliable gas distribution system.

IV. WITNESSES

Q. WHO ELSE WILL BE PRESENTING DIRECT TESTIMONY IN THIS CASE?

A. In addition to my testimony, Atmos Energy will present the direct testimony and exhibits of six other witnesses.

* Mr. Bart Armstrong, Vice President of Operations for the Colorado/Kansas Division, provides testimony addressing our Kansas distribution system and what steps need to be taken to effectively remove and replace obsolete piping within a reasonable period of time, consistent with industry standards reflected in federal and state regulation and the Company's Distribution Integrity Management Plan. He also explains how the proposed SIP mechanism will accomplish these goals and align with the Commission's policy goals outlined in the 343 Docket.

* Mr. Gary Smith, Director of Rates and Regulatory Affairs (Shared Services), will discuss and describe the SIP mechanism we are proposing in this filing and the various alternative rate mechanisms the Company currently utilizes in other states it serves. Mr. Smith will also explain why these mechanisms are effective in allowing utilities to extend the time necessary for filing rate cases which is in the best interest of the customer, the Commission and the Company. Finally, Mr. Smith explains how the proposed SIP mechanism will align with the Commission's policy goals outlined in the 343 Docket. In addition, Mr. Smith will sponsor testimony related to Billing Determinants and tariff changes.

* Ms. Jennifer Story, Director Regulatory Reporting (Shared Services), will sponsor testimony regarding Revenue Requirement, Cost of Service Model, Rate

Base and Rate Base Adjustments, Operations and Maintenance ("O&M") Adjustments, the Rate Case Expense Surcharge, Taxes, and Depreciation Expense.

* Ms. Laura Gillham, Director, Accounting Services (Shared Services), will sponsor the Company's Books and Records and Cost Allocation Manual ("CAM").

* Mr. Dylan D'Ascendis, who is with the firm ScottMadden, Inc., will sponsor the Company's Return on Equity and Capital Structure.

* Mr. Paul Raab, an independent economic consultant, will provide testimony regarding Rate Design and Class Cost of Service.

* Mr. Ned Allis, who is with the firm Gannett Fleming, will provide testimony regarding the Company's proposed new depreciation rates for the Kansas operations' utility plant.

V. CONCLUSION

Q. DO YOU BELIEVE THAT THE COMPANY'S PROPOSED RATES AND SIP MECHANISM WILL BE JUST AND REASONABLE?

A. Yes. The Company's application, if adopted, will result in just and reasonable rates that balance the interest of the Company and the customer.

Q. IN ADDITION TO THE RELIEF REQUESTED IN THIS FILING ALREADY DISCUSSED ABOVE, DO YOU HAVE ANY ADDITIONAL REQUESTS?

A. Yes. The Company respectfully asks that an abbreviated filing be permitted no later than 12 months following the issuance of the order in this rate case, should Atmos Energy meet the requirements for such a filing after the conclusion of this case.

Q. HOW IMPORTANT IS THIS DOCKET TO ATMOS ENERGY?

A. It is very important not just for Atmos Energy but also for the Commission and our Kansas customers. If Atmos Energy is unable to achieve a regulatory outcome in this docket that is more in line with industry norms and the prevailing requirements/emphasis on pipeline safety, then the adverse results may include but not be limited to frequent rate filings with associated increased burdens and cost on all parties to those filings, as well as increased cost to our customers with a less predictable or smooth trajectory for rate changes..

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

VERIFICATION

STATE OF COLORADO)
)
COUNTY OF DENVER)

Gary W. Gregory, being duly sworn upon his oath, deposes and states that he is President of Atmos Energy Corporation's Colorado-Kansas Division; 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.

Gary W. Gregory

Subscribed and sworn before me this 6th day of June, 2019.

ELENA PALNOVA
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 20174028881
MY COMMISSION EXPIRES JULY 11, 2021

Notary Public

My appointment expires: July 11, 2021

EXHIBIT GWG-1

Gary W. Gregory
President, Colorado-Kansas Division
Atmos Energy Corporation

CURRENT RESPONSIBILITIES AT ATMOS ENERGY CORPORATION

In my current role, I have overall responsibility for the safe and reliable provision of gas service for the customers and communities the Company serves in Colorado and Kansas. To that end, I lead a dedicated team of approximately 300 employees throughout both states with duties spanning operations, construction, engineering, compliance, measurement, safety, information technology, human resources, marketing, public affairs, finance and rates. I am ultimately responsible for the service provided by the Company in Kansas and Colorado and for ensuring the long-term financial viability of the Colorado/Kansas Division's operations.

PROFESSIONAL AND EDUCATIONAL BACKGROUND

I graduated with a bachelor's degree in civil engineering from the University of Houston in 1983. I am a Registered Professional Engineer in the State of Texas. I have been in utility operations management since 1984. I joined Atmos Energy in 1995, working in the Company's West Texas Division. In 2000, I was named Vice President of Technical Services for the Colorado/Kansas Division. In 2004, I returned to the West Texas Division as President with responsibility for 349 employees, 307,480 customers, 76 communities and 15,125 miles of pipe. During this time I also served as Chairman of the Atmos Energy Utility Operations Council, a deliberative body within the Company charged with addressing operational matters, including safety performance and federal and state regulatory compliance. In 2012, I returned to Colorado to serve as President of the Colorado/Kansas Division.

PROFESSIONAL ORGANIZATION MEMBERSHIPS

I have been a member of the American Society of Civil Engineers for 28 years. Since 2017, I have been a board member of the Southern Gas Association.

PREVIOUS TESTIMONY BEFORE THE KANSAS CORPORATION COMMISSION

I testified in Docket 16-ATMG-079-RTS.

Exhibit GWG-2