

**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 ) 08-ATMG-280-RTS**

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**DIRECT TESTIMONY OF  
MICHAEL D. DEARMOND  
FOR ATMOS ENERGY CORPORATION**

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**I. NAME AND POSITION**

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**Q. PLEASE INTRODUCE YOURSELF.**

A. My name is Michael D. DeArmond. I am the Vice President of Operations in Kansas for the Colorado/Kansas division of Atmos Energy Corporation (“Atmos”, “Atmos Energy” or “the Company”). My business address is 25090 W. 110<sup>th</sup> Terrace, Olathe, Kansas 66061.

**II. EDUCATION AND BACKGROUND**

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**Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.**

A. I earned a Bachelor of Science degree in Occupational Education from Wayland Baptist University in 1997. I began my career with the Company in 1981 as a meter reader. After working in several customer service related positions, I was promoted to Service Foreman in Amarillo in 1989. Over the next several years I was promoted to various management positions within the Company. In 1991, I

1 transferred to Mansfield, Louisiana as Manager. After 4 years, I was promoted to  
2 Assistant District Manager in Lubbock, Texas. I then transferred to Dallas, Texas  
3 working in the Technical Services group where I was instrumental in the  
4 deployment and roll out of new technology across the enterprise. Later I assisted  
5 in the operations and implementation of the Customer Support Center in  
6 Amarillo, Texas, and moved back to operations as Manager in Plainview, Texas  
7 in 2000 and later Manager in Amarillo, Texas in 2003. I was promoted to my  
8 current position in 2006. I am active on the Company's Utility Operations  
9 Council and former chair of the Operations subcommittee.

10 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES AT ATMOS ENERGY?**

11 A. I am responsible for and have oversight of safety, operations, maintenance,  
12 construction, and customer service in connection with the Company's regulated  
13 utility operations within the State of Kansas. Among these responsibilities, I also  
14 have ultimate oversight of the Company's meter reading workforce in Kansas and  
15 its performance of that crucial function. My duties further include developing,  
16 recommending, implementing and monitoring short and long-term strategic plans  
17 and initiatives to achieve profitability and growth for the Company's Kansas  
18 operations while maintaining safe and reliable natural gas service to our  
19 customers. I also research, develop, recommend and administer policies,  
20 procedures and operating standards necessary for the efficient and cost effective  
21 operations of my functional area activities, as well as keeping abreast of federal,  
22 state and local laws and regulations pertaining to my functional areas to ensure  
23 compliance. My duties also include the development and monitoring of

1 functional area budgets to ensure efficient utilization of resources and to plan and  
2 direct the achievement of Kansas area goals and objectives with established  
3 Company policies.

4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS**  
5 **CORPORATION COMMISSION (“KCC”)?**

6 A. This is the first time I have had the opportunity to testify before the KCC.

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**III. SUMMARY OF TESTIMONY**

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10 **Q. IN WHAT GENERAL AREAS WILL YOU TESTIFY?**

11 A. I will testify in four areas:

- 12 1. Proposed Advanced Metering Infrastructure (“AMI”) tariff rider;
- 13 2. Proposed Gas System Reliability Surcharge (“GSR”) tariff rider;
- 14 3. Proposed transportation service tariff changes; and
- 15 4. Other miscellaneous tariff changes proposed by the Company.

16 **Q. PLEASE SUMMARIZE THE TESTIMONY YOU WILL GIVE IN THESE**  
17 **FOUR AREAS.**

18 A. Proposed AMI tariff rider: My testimony focuses upon the benefits of AMI to the  
19 Company’s Kansas operations and its Kansas customers and which are discussed  
20 at the enterprise level in the direct testimony of Company witness Mr. David  
21 Anglin. I will also discuss the current regulatory environment in Kansas  
22 concerning energy efficiency and how AMI fits into this State’s energy efficiency  
23 goals. Finally, I will address the Company’s AMI tariff rider that it proposes to  
24 implement in Kansas.

1 Proposed GSRS tariff rider: My testimony addresses the tariff the Company  
2 proposes to implement pursuant to a new law in Kansas. This law permits gas  
3 utilities, subject to the approval and oversight of the Commission, to implement a  
4 surcharge to recover costs associated with eligible gas system infrastructure  
5 projects necessitated by federal or state safety or reliability requirements, or as a  
6 result of non-reimbursed facilities relocations in connection with federal, state or  
7 local governmental authority road projects.

8 Proposed transportation tariff changes: My testimony with regard to the  
9 transportation tariff will address the addition of clarifying language to the  
10 electronic flow measurement (“EFM”) technology requirements, revise the  
11 imbalance percentage ranges, and liberalize the tolerance of imbalances for  
12 School transportation accounts.

13 Other miscellaneous tariff changes: I will support the miscellaneous revisions to  
14 the Company’s tariffs which will align them with the most current language in the  
15 Kansas Billing Standards, clarify the Company’s meter estimation and testing  
16 procedures, and more particularly describe the Company’s policy with respect to  
17 yard line replacements.

18 **IV. ADVANCED METERING INFRASTRUCTURE**

19 **Q. DURING THE COURSE OF YOUR CAREER, HAVE YOU HAD THE**  
20 **OPPORTUNITY TO WORK WITH AUTOMATED METER READING**  
21 **TECHNOLOGY?**

22 **A.** Yes. During my tenure as a Manager in the Company’s West Texas division, I  
23 had the firsthand opportunity to supervise the implementation and rollout of

1 automated meter reading (AMR) technology to several of the Company's rural  
2 and irrigation customers. On occasion, I had the experience of flying over the  
3 units as a passenger in an airplane to take readings from the meters.

4 **Q. ARE YOU GENERALLY FAMILIAR WITH AMI AND THE**  
5 **COMPANY'S GOALS OF IMPLEMENTATION OF THAT**  
6 **TECHNOLOGY?**

7 A. Yes. AMI is a fixed base AMR network that will eliminate the necessity of  
8 manual meter reading because it provides "real-time" consumption data that is  
9 electronically transmitted from a customer's gas meter to the Company's  
10 customer information system and ultimately available to the customer on a real-  
11 time basis. The functionality of AMI is discussed at length in Mr. Anglin's direct  
12 testimony. The Company's ultimate goal is to implement AMI in all of its gas  
13 service territories, including Kansas.

14 **Q. WHAT IS THE METER READING PROCESS CURRENTLY USED IN**  
15 **KANSAS BY THE COMPANY?**

16 A. Atmos Energy currently employs the manual meter reading method in Kansas.  
17 Company meter readers travel to customers' meters on an assigned route each  
18 month to collect customer usage information ("meter reads") with a hand-held  
19 data collection device ("hand-held"). After the meter reading route is completed,  
20 the customer reads are transferred from the hand-held to the Company's customer  
21 information system at a meter reading base location. The Company's billing  
22 system personnel then perform a series of data validation routines which, if  
23 warranted, automatically trigger a pre-billing review that may result in bill

1 adjustments. Once the validation process is completed and any exceptions are  
2 resolved, the customer's monthly bill is generated.

3 **Q. DOESN'T THE USE OF THE HAND-HELDS ALREADY ENSURE**  
4 **METER READING ACCURACY?**

5 A. They do to a greater degree than the historical practice of using meter books. The  
6 problems inherent in both systems of meter reading, though, stem from their  
7 dependency upon human labor and the potential for human error. These problems  
8 are more fully discussed in Mr. Anglin's direct testimony and apply equally to the  
9 Company's operations in Kansas.

10 **V. AMI AND ENERGY EFFICIENCY IN KANSAS**

11 **Q. IN HIS DIRECT TESTIMONY, MR. ANGLIN DISCUSSES THE**  
12 **IMPORTANCE AND BENEFITS OF REAL-TIME METERING**  
13 **INFORMATION AND ACCURACY. DO YOU AGREE?**

14 A. Yes. With the implementation of AMI, the Company's customers in Kansas will  
15 enjoy those same benefits, particularly within the context of energy efficiency.  
16 Real-time, accurate metering information will enable Kansas customers to more  
17 closely and accurately monitor their consumption habits and make informed  
18 decisions regarding changing those habits. For example, a customer who has gas  
19 heating in his home could, by viewing recent consumption history (whether  
20 hourly or daily), do something as simple as lower the setting on his home  
21 thermostat and actually see the effect of that action on his consumption of natural  
22 gas. This would enable the customer to actually experience and manage on a  
23 more real-time basis the energy cost benefits associated with maintaining his

1 thermostat in accordance with the energy savings tips promoted by the Company  
2 on its website, and which can be accessed by any customer with access to an  
3 internet-enabled computer.

4 Another service offered by the Company through its website is a customized  
5 energy profile that details recent consumption history for the customer and  
6 provides tips on managing energy costs. AMI will enable the Company to  
7 provide more up-to-date information regarding the customer's consumption and  
8 assist both the Company and the customer in formulating energy savings cost  
9 measures for that customer.

10 Other energy savings tools that are already available to the Company's Kansas  
11 customers on the website include an energy calculator for appliances to determine  
12 how much gas those appliances can be expected to use, access to an energy  
13 library that provides detailed research on many energy topics, the ability to  
14 communicate with a Company employee for expert advice on energy-related  
15 topics, and "Clearbill", which analyzes a customer's most recent gas bill from the  
16 Company and helps the customer understand the weather, billing days and charge  
17 components that impact the customer's bill. All of these existing customer tools  
18 will be further enhanced through the deployment of AMI.

19 There are also other benefits discussed in Mr. Anglin's testimony such as those  
20 associated with supply side management, but I do not need to restate those  
21 benefits in my testimony.

22 **Q. CAN A CUSTOMER TAKE ADVANTAGE OF THE CONSERVATION**  
23 **BENEFITS OF AMI IF THEY DO NOT HAVE INTERNET ACCESS?**

1 A. Absolutely. Atmos will make trained Operations Assistants (OA) available on a  
2 walk-in basis to assist customers in viewing and understanding the gas  
3 consumption information that is available on-line. The OA's will be able to  
4 communicate conservation tips and aid customers in pinpointing factors that  
5 elevate their gas consumption. Customers will be able to schedule follow up  
6 visits to monitor the impact of their conservation efforts.

7 **Q. WHAT IS THE CURRENT OPINION OF THE KANSAS GOVERNOR,**  
8 **KANSAS LEGISLATORS AND REGULATORS ON ENERGY**  
9 **EFFICIENCY?**

10 A. To her credit, the Kansas Governor has made energy efficiency a top priority.  
11 The Kansas Legislature and the Commission are also taking energy efficiency  
12 very seriously. In 1997, the Kansas Legislature amended the statutes applicable  
13 to utility rates and incentivizes utilities to invest in energy efficiency programs  
14 and infrastructure by authorizing an increase in their return on that investment of  
15 between .5% to 2% over and above their authorized return. In September of last  
16 year, the Commission opened Docket 07-GIMX-247-GIV to generally investigate  
17 energy efficiency programs. The Commission Staff's Report and  
18 Recommendation ("Staff's Report") regarding this investigation was filed in May  
19 of this year.

20 **Q. WHAT WERE THE FINDINGS IN THE STAFF'S REPORT?**

21 A. The Staff's Report contained a detailed legal analysis regarding the Commission's  
22 authority to either require or encourage gas and electric utilities to evaluate and  
23 offer energy efficiency programs to their customers in order to comply with



1 obligations to provide efficient services. I do not propose to synopsise the Staff's  
2 Report inasmuch as it speaks for itself. The Company is encouraged that Staff  
3 concludes in its report that the Commission has the authority to provide utilities  
4 with incentives to offer energy efficiency programs in addition to the increased  
5 rate of return now authorized by the Kansas statutes. Accordingly, the Company  
6 is proposing in this rate case to implement a tariff that would allow it to begin  
7 earning its authorized return on its investment in AMI plus, if authorized by the  
8 Commission, an incremental percentage over that return.

9 **Q. HOW MUCH WILL THE COMPANY'S AMI INVESTMENT COST?**

10 A. As stated in Mr. Anglin's testimony, the Company has projected that its total  
11 capital investment to completely implement AMI across the entire enterprise will  
12 be approximately \$220 million. Of this amount, the Company projects that the  
13 implementation of AMI in Kansas will cost approximately \$9.94 million.

14 **Q. WHAT FORM OF TARIFF DOES THE COMPANY PROPOSE TO**  
15 **IMPLEMENT?**

16 A. The Company proposes to implement a tariff comparable to that currently allowed  
17 by Kansas law for investment in new infrastructure related to pipe relocation or  
18 necessitated by state or federal safety requirements (commonly referred to as  
19 "GSRS"). Although the Company's AMI tariff will not be a GSRS tariff, it will  
20 work like one in that the Company will be able to implement a surcharge  
21 associated with the costs of AMI.

22 **Q. PLEASE EXPLAIN HOW THE TARIFF WILL WORK.**

1 A. Once the Company begins investing in AMI technology in Kansas, it would  
2 accrue the investment, along with allowable return and depreciation expense.  
3 These amounts would be offset by any direct savings experience by the Company  
4 in its meter reading functions. Such direct expenses have been identified as being  
5 booked to Account 920. The Company proposes that the test year amounts  
6 booked to this account be used as a baseline for the measurement of any future  
7 savings. The tariff would calculate a monthly surcharge applicable to each  
8 Kansas customer that would provide recovery of the allowed return and  
9 depreciation on the investment to the Company, less any realized direct savings.  
10 The actual amounts invested in AMI, the actual savings and the revenues  
11 recovered under the surcharge would all be reviewed and trued up in Atmos' next  
12 rate case filing. The form of the proposed tariff is included as Section IX of the  
13 Company's revised tariff book filed herein.

14 **Q. WHY IS THE TARIFF IMPORTANT TO KANSAS CUSTOMERS AND**  
15 **THE COMPANY?**

16 A. The approval of the Company's proposed AMI tariff will allow for the early  
17 deployment of AMI in Kansas and allow Kansas customers to reap the benefits  
18 associated with AMI sooner. Although AMI is targeted for roll-out in Kansas  
19 within the next five years, the exact date of the roll-out has not yet been set. By  
20 approving a tariff that will allow Atmos to immediately begin earning a return on  
21 its investment and barring any severe capital constraints resulting from conditions  
22 imposed upon Atmos that are beyond its reasonable control, Atmos will be able to  
23 accelerate the deployment of AMI in Kansas. It should be remembered, however,

1 that the provisions in the tariff would not be affected or would not start imposing  
2 any additional surcharges on Kansas customers until Atmos begins to deploy AMI  
3 in Kansas. In other words, Atmos is not asking for approval of advanced recovery  
4 before AMI is actually deployed in Kansas.

5 **Q. IN YOUR OPINION, DOES AMI ENHANCE ENERGY EFFICIENCY IN**  
6 **KANSAS TO SUCH A DEGREE AS TO WARRANT FAVORABLE**  
7 **TREATMENT BY THE COMMISSION UNDER THE STATUTE (K.S.A.**  
8 **66-117) THAT PERMITS RECOVERY OF AN INCREMENTAL RETURN**  
9 **ON THE AMI INVESTMENT?**

10 A. Yes, for the reasons I have already provided as well as those provided by Mr.  
11 Anglin in his testimony.

12 **Q. WHAT INCREMENTAL RETURN DOES THE COMPANY PROPOSE?**

13 A. The Company believes that AMI is an energy efficiency technology that would  
14 permit the full 2% incremental return allowed by the statute.

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16 **VI. OTHER BENEFITS OF AMI**

17 **Q. ARE THERE ANY KANSAS-SPECIFIC STATISTICS OR OTHER**  
18 **INFORMATION THAT SHOULD BE CONSIDERED BY THE**  
19 **COMMISSION AND IN THE CONTEXT OF THE DISCUSSION OF AMI**  
20 **IN MR. ANGLIN'S TESTIMONY?**

21 A. Yes. Mr. Anglin identifies a number of data points within his testimony at the  
22 enterprise level including the annual cost associated with performing "read and  
23 run" service orders, the annual cost of maintaining a meter reading workforce, the

1 number of dog bite incidents involving Company meter readers, the annual cost to  
2 the Company as a result of compensation payments made to property owners for  
3 property damage, the annual number of vehicular accidents involving Company  
4 meter readers, and the number of lost work days attributable to on-the-job injuries  
5 suffered by meter readers. My testimony provides a Kansas perspective with  
6 respect to each of these areas and how the effect AMI will have on them.

7 **Q. WILL AMI OPERATE PERFECTLY?**

8 A. To my knowledge, no technology ever operates perfectly 100% of the time.  
9 Obviously, AMI will be dependent upon certain variables such as severe weather  
10 which may damage or bring down a cell tower or other equipment, equipment  
11 malfunction, software application problems, etc. However, the Company believes  
12 that any start-up problems associated with equipment or software system  
13 performance will be fully vetted before the implementation of AMI in Kansas. As  
14 discussed in Mr. Anglin's testimony, the Company already has in place a series of  
15 roll-outs that are being implemented or will be implemented within the next year.

16 **Q. HOW WILL AMI AFFECT "READ AND RUN" SERVICE ORDERS?**

17 A. In 2006, the Company performed 23,268 read and run services orders at an  
18 estimated cost of \$113,935. The use of AMI in Kansas will eliminate the  
19 necessity for the most part of providing this particular service as well as the  
20 attendant cost. After AMI is implemented, there may be isolated instances where  
21 the performance of a read and run order is required, but those are expected to be  
22 rare within the scheme of total operations and costs.

23 **Q. WHAT IMPACT WILL AMI HAVE ON METER READING COSTS?**

1 A. The Company currently maintains a meter reading workforce in Kansas that  
2 incurs costs for benefits, uniforms, vehicles, equipment, etc. The implementation  
3 of AMI in Kansas will ultimately reduce these costs. This does not mean,  
4 however, that the implementation of AMI will translate into an immediate dollar  
5 for dollar reduction in O&M expense for the Company's Kansas operations  
6 because, as stated in Mr. Anglin's testimony, the Company does not plan to use  
7 wholesale workforce reductions such as lay-offs. Attendant workforce reductions  
8 in the Company's Kansas operations are expected to be achieved through  
9 employee re-training and attrition. For example, an affected meter reading  
10 employee would be given the opportunity to re-train for and transition into  
11 another functional area, such as a service technician, construction and  
12 maintenance crew member or other position. Both the Company and its  
13 customers benefit from the retention of employees who are already  
14 knowledgeable regarding the Company's operations and the needs of its  
15 customers and who can continue to provide service to those customers in a  
16 different function.

17 **Q. WHAT EFFECT WILL AMI HAVE IN KANSAS ON WORKFORCE**  
18 **RELATED INJURIES?**

19 A. In 2006, Company meter readers in Kansas suffered 3 reported injuries that  
20 resulted in a total estimated 33 lost work days. The cost associated with these  
21 incidents was approximately \$18,289 in payments to injured employees alone.  
22 This cost is factored in as part of the Company's O&M expense in Kansas and is

1 projected to be substantially reduced, if not altogether eliminated, through the use  
2 of AMI.

3 **Q. WHAT ABOUT OTHER TRAVEL RELATED COSTS?**

4 A. The maintenance of a meter reading workforce dictates that those employees be  
5 provided with a work vehicle to travel to and from meter reading routes. In 2006,  
6 there were 2 vehicular accidents involving Company meter readers in Kansas that  
7 resulted in \$3669 in damages to Company vehicles and other property. The  
8 implementation of AMI will ultimately take additional Company vehicles off the  
9 road and enable the Company to avoid the risks and costs I have described.

10 An additional area of liability for the Company results from inadvertent damage  
11 to customer or third-party property, other than vehicular accidents, associated  
12 with the manual meter reading process. Such damages may include the accidental  
13 backing over of customer shrubs, inadvertent damage to a yard gate, or any  
14 number of other similar incidents.

15 **Q. HOW WILL AMI DETER THEFT OF SERVICE IN KANSAS?**

16 A. AMI employs a tamper proof alarm on a gas meter that will allow the Company to  
17 more quickly detect meter by-pass or other form of natural gas theft. The  
18 technology will also allow the Company to monitor gas flow through any given  
19 meter, notifying Atmos of abnormally high consumption on a closed account,  
20 indicating unauthorized gas use. Although the Company has a policy of actively  
21 pursuing theft incidents through the appropriate criminal process, criminal  
22 prosecutors tend to be reluctant to prosecute these types of cases unless the  
23 premise owner is caught "red-handed". Even for those cases that are prosecuted,

1 which are few, the restitution ordered typically does not equate to the entire cost  
2 incurred by the Company associated with the theft.

3 **Q. WILL KANSAS CUSTOMERS AND THE COMPANY BENEFIT FROM**  
4 **THE REDUCTION OR AVOIDANCE OF THE COSTS YOU HAVE**  
5 **DISCUSSED?**

6 A. Yes. Both Kansas customers and the Company benefit from improvements in  
7 operations efficiency, which ultimately and positively impact the costs of  
8 delivering energy to our customers.

9 **Q. WILL THE IMPLEMENTATION OF AMI HAVE ANY ADDITIONAL**  
10 **BENEFITS FOR THE STATE OF KANSAS?**

11 A. Yes. The cost of installation of AMI statewide in Kansas is estimated to be  
12 approximately \$1 million dollars. Virtually all of those dollars will be paid to  
13 local contractors. The Company has experienced great success with employing  
14 off duty firefighters to perform the installations. The Company's relationship  
15 with these public safety personnel and the high employment standards placed on  
16 them by local fire departments makes these men and women an excellent resource  
17 for the Company. Atmos intends to pursue this avenue in Kansas, if given the  
18 opportunity.

19 **VII. GAS SYSTEM RELIABILITY SURCHARGE**

20 **Q. WHAT IS THE BASIS FOR THE COMPANY'S PROPOSED GSRS**  
21 **TARIFF?**

22 A. In 2006, the Kansas Legislature enacted a new law referred to as the "Gas Safety  
23 and Reliability Policy Act" that allowed for the implementation of a "Gas System

1 Reliability Surcharge” (“GSRS”) which allows gas utilities, subject to the  
2 oversight and approval of the Commission, to implement a surcharge to recover  
3 the costs associated with eligible infrastructure system replacements as defined in  
4 the act. Basically, the Company can begin earning a more immediate return on  
5 the cost of pipe, fittings, valves, etc., through a surcharge if the replacement of  
6 existing infrastructure is necessitated by federal or state safety or integrity  
7 requirements, or in connection with non-reimbursed facilities relocations  
8 associated with public roadway projects.

9 **Q. WHY IS THIS TARIFF BEING PROPOSED IN THIS GENERAL RATE**  
10 **PROCEEDING?**

11 A. The implementation of the tariff is being proposed in this proceeding because it is  
12 a proper forum to do so in lieu of filing a separate application. This will give all  
13 interested parties an adequate opportunity to fully consider the Company’s  
14 proposal, whether through discovery, a technical conference or otherwise.

15 It should be noted that no surcharge will be implemented at this time, it is instead  
16 for future use.

17 **Q. HOW WILL THIS TARIFF WORK?**

18 A. Basically, subject to certain restrictions, the Company would charge a monthly  
19 surcharge relating to costs for eligible infrastructure replacement, and which  
20 would be determined based upon applicable rates of return and other applicable  
21 factors. The proposed tariff is set forth in its entirety in Schedule VIII of the  
22 Company’s revised tariff book filed in this proceeding. The mechanics of the



1 determination and implementation of any surcharge are more fully described in  
2 the tariff.

3 **VIII. TRANSPORTATION TARIFF CHANGES**

4 **Q. WHAT CHANGES ARE BEING PROPOSED TO THE COMPANY'S**  
5 **TRANSPORTATION TARIFF?**

6 A. The Company is proposing minor revisions to its transportation tariff in three  
7 basic areas: electronic metering equipment requirements, imbalance percentage  
8 ranges, and imbalance provisions relating to transportation accounts meeting the  
9 Company's definition of a School.

10 **Q. WHAT IS THE COMPANY PROPOSING WITH RESPECT TO EFM?**

11 A. In some cases, smaller use meters located on a contiguous property are aggregated  
12 in order to qualify a customer for transportation service. The Company's tariff  
13 now includes a grandfather clause which exempts these smaller meters from the  
14 installation of EFM equipment. We are proposing that those smaller aggregated  
15 meters receiving service prior to January 24, 2004 remain exempted with the  
16 exception that any meter using more than 1,500 Mcf in any 12 month period be  
17 subject to the requirement to install EFM equipment.

18 **Q. WHAT IS THE PURPOSE OF THE EFM TARIFF CHANGE?**

19 A. This aim of the additional language is to clarify the Company's policy regarding  
20 EFM equipment and close a loophole that may have been inadvertently created by  
21 the grandfather clause which could be interpreted to unfairly allow certain  
22 customers to avoid using EFM.

1 **Q. WHAT IS THE COMPANY PROPOSING WITH RESPECT TO THE**  
2 **IMBALANCE PERCENTAGE RANGES?**

3 A. The Company is proposing that the imbalance ranges for all transportation  
4 customers except those who meet the Company's definition of School be reduced  
5 by 5%, meaning that in cases where a threshold is 10%, it would be 5% and where  
6 the threshold was 15%, it would be 10%.

7 **Q. WHAT IS THE PURPOSE OF THIS CHANGE?**

8 A. Imbalances occur when the amount of gas a transportation customer has arranged  
9 to be supplied to the Company's system does not match volume of gas that the  
10 customer nominates for delivery during the same transportation period.  
11 Imbalances cause the Company to incur additional costs. EFM technology has  
12 advanced allowing the monitoring of supply and nomination to become more  
13 accurate, making it possible for the Company to more efficiently control its  
14 transportation costs by avoiding large imbalances. It should be noted that  
15 Company's imbalance provisions are applicable only when the transportation  
16 service does not involve an interconnecting upstream pipeline with imbalance  
17 settling procedures, or where the Company is unable to replicate those  
18 procedures. The revisions to the imbalance provisions realistically reflect the  
19 advancement of the industry and the level of accuracy in transportation operations  
20 that is now the industry standard.

21 **Q. WHAT TARIFF CHANGES IS THE COMPANY PROPOSING WITH**  
22 **RESPECT TO SCHOOLS?**

1 A. The Company is proposing that new language be added to its imbalance  
2 provisions which would maintain the previously accepted ranges with respect to  
3 transportation accounts which meet the Company's definition of School.

4 **Q. IF IMBALANCES ARE BAD, WHY ARE SCHOOL ACCOUNTS HELD**  
5 **TO A DIFFERENT STANDARD?**

6 A. School accounts are not required to utilize EFM technology. As I stated before,  
7 EFM is an important tool for accurately measuring transportation imbalances.  
8 Because School accounts are exempt from utilizing this technology, the Company  
9 expects that imbalances which may be experienced by these accounts will remain  
10 at pre-EFM levels.

11 **IX. MISCELLANEOUS TARIFF CHANGES**

12 **Q. WHAT OTHER TARIFF CHANGES IS THE COMPANY PROPOSING?**

13 A. The Company is proposing minor revisions that are aimed at clarifying its tariffs.  
14 The three basic areas of change are: alignment with the Kansas Billing Standards,  
15 clarification of meter estimation and testing procedures, and clarification of the  
16 Company's policy with respect to yard line replacements.

17 **Q. WHAT IS THE COMPANY PROPOSING WITH RESPECT TO THE**  
18 **KANSAS BILLING STANDARDS?**

19 A. In all cases where the Company's tariffs reflect the language of the Kansas Billing  
20 Standards, we have updated the tariffs to mirror the most recent version of these  
21 standards, incorporating amendments that have taken place since the Company  
22 last filed its tariffs.

1 **Q. WHAT ARE THE PROPOSED CHANGES TO THE COMPANY'S**  
2 **METER ESTIMATION TARIFF?**

3 A. The Company is proposing to add language that will memorialize its meter  
4 estimation procedures. This provision specifies the basis and formula by which  
5 Atmos will render an estimated bill if an actual reading is not obtained for any  
6 particular billing period. The procedures contained therein represent a reasonable  
7 methodology for estimation, based on a customer's historical consumption, the  
8 current consumption of similar customers for whom actual meter readings were  
9 obtained, and the length of the billing cycle.

10 **Q. WHAT ARE THE PROPOSED CHANGES TO THE COMPANY'S**  
11 **METER TESTING PROVISION?**

12 A. The language in the Company's tariff regarding meter testing largely remains the  
13 same, with the exception that it refers back to the meter estimation procedures in  
14 the case of a non-registering meter.

15 **Q. WHAT REVISION IS ATMOS PROPOSING TO ITS YARD LINE**  
16 **REPLACEMENT POLICY?**

17 A. Atmos has tailored this portion of its tariff to specify that its yard line replacement  
18 policy applies to residential customers only. The new language makes this piece  
19 of the Company's tariff consistent with the piping reconnection policy, and more  
20 accurately reflects the intention that this provision remain economically feasible  
21 and accessible to those customers who will receive the greatest benefit.

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

23 A. Yes.

**VERIFICATION**

STATE OF TEXAS                    )  
  ) ss.  
COUNTY OF DALLAS                )

Michael D. DeArmond, being duly sworn upon his oath, deposes and states that he is Vice-President of Operations Atmos Energy’s Kansas operations; 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.

*Michael D. DeArmond*  
MICHAEL D. DEARMOND

Subscribed and sworn to before me this 10<sup>th</sup> day of September 2007.

*Ethel Z. Taylor*  
NOTARY PUBLIC

My appointment Expires:  
August 13, 2010

