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	)	16-ATMG-____-RTS

DIRECT TESTIMONY OF

GARY L. SMITH

FOR ATMOS ENERGY CORPORATION

Table of Contents

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gary L. Smith. My business address is 5420 LBJ Freeway, Suite 1600, Dallas, Texas 75240.

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

A. I serve as Director of Rates and Regulatory Affairs for Atmos Energy Corporation ("Atmos Energy" or the "Company").

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES AS DIRECTOR OF RATES AND REGULATORY AFFAIRS AND YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. In this role, I am responsible for leading and directing the rates and regulatory activities in Atmos Energy's eight-state service area. I am responsible for planning and

implementing strategies to assure that the Company's tariffs and services are meeting the goals and balancing the interests of our customers, regulators and shareholders.

Previously, I served as the Company's Director of Customer Revenue Management in Dallas. Prior to that, through May 2007, I served several years as Vice President-Marketing and Regulatory Affairs for the Company's Kentucky/Mid-States operations, where I was responsible for rates and regulatory affairs, as well as for directing the marketing plans and strategies for natural gas utility markets in that division.

I have been active in numerous civic and community organizations and associations relating to the natural gas industry. I have served as chairman of the Utilization Technology Development, NFP Corporation and as chair of the Strategic Marketing Committee for the American Gas Association.

I am a 1983 graduate of the University of Kentucky, with a Bachelor of Science degree in Civil Engineering. I have worked for Atmos Energy or its predecessor, Western Kentucky Gas Company, since 1984.

Q. HAVE YOU EVER SUBMITTED TESTIMONY BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS (THE "COMMISSION")?

A. Yes. I was a witness for the Company in Commission Docket Nos. 08-ATMG-280-RTS and 12-ATMG-564-RTS.

Q. HAVE YOU TESTIFIED ON MATTERS BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes, I have testified in dockets involving Atmos Energy before the Kentucky Public Service Commission, the Georgia Public Service Commission, the Missouri Public Service Commission, the Tennessee Regulatory Authority and the Railroad Commission of Texas.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe and support the Company's proposed Annual Review Mechanism ("ARM") and System Integrity Program ("SIP") tariffs. The ARM tariff is proposed to address the Commission's general concerns regarding the frequency of the Company's rate case filings under current levels of capital investment and the associated rate case expenses in particular. The SIP tariff is proposed to address additional capital investments which will be required in order to accelerate the pace of replacement of obsolete materials in Atmos Energy's Kansas distribution system. These tariffs address the two primary regulatory challenges faced by Atmos Energy in Kansas.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?

A. Yes. I sponsor Exhibits GLS-1 through GLS-7. Exhibit GLS-1 is the Annual Review Mechanism in Schedule IX of the Company's proposed tariffs. Exhibit GLS-2 is the System Integrity Program in Schedule X of the Company's proposed tariffs. Exhibit GLS-3 compares the capital investment lag for the proposed ARM and SIP to other periodic rate adjustments employed in other Atmos Energy jurisdictions. Exhibit GLS-4 compares the timing for filings and rate changes of the ARM and the SIP. Exhibit GLS-

5 is a Staff memo to the Commission with their recommended parameters for aging infrastructure investment plans. I also sponsor Exhibit GLS-6, the American Gas Association ("AGA") Summary of States with Rate Stabilization tariffs. Finally, Exhibit GLS-7 is the AGA Summary of States with Accelerated Infrastructure Cost Recovery tariffs in place throughout the U.S.

III. ANNUAL REVIEW MECHANISM BACKGROUND

Q. PLEASE EXPLAIN WHY ATMOS ENERGY HAS REQUIRED MORE FREQUENT RATE CASES IN RECENT YEARS.

A. The increased frequency of rate case filings by Atmos Energy in recent years is primarily the product of Atmos Energy's continuing capital investment in pipeline safety and integrity programs in Kansas, which is driven by federal pipeline safety requirements.

Q. IS THIS TREND UNIQUE TO THE COMPANY'S KANSAS OPERATIONS?

A. No. The emphasis on safety and associated increased levels of capital investment extends to all of the eight states in which Atmos Energy operates. Each of these jurisdictions has experienced an increase in the frequency of rate adjustments for the same reason Kansas has seen such an increase. In order to overcome the need for frequent, litigious and expensive comprehensive rate cases, many regulatory jurisdictions have implemented one or more of an array of new capital trackers, annual rate review tariffs and other innovative ratemaking processes.

Q. PLEASE PROVIDE AN OVERVIEW OF THE MECHANISMS CURRENTLY IN EFFECT IN OTHER ATMOS ENERGY JURISDICTIONS WHICH LESSEN

THE FREQUENCY OF COMPREHENSIVE RATE CASES.

A. Exhibit GLS-3 summarizes the key rate mechanisms currently employed in each Atmos Energy jurisdiction. Column (a) shows the numerous areas currently operating under a comprehensive annual rate review process. Column (b) shows the capital investment lag experienced with each of these annual mechanisms.

Q. FOR PURPOSES OF EXHIBIT GLS-3, PLEASE DEFINE WHAT IS MEANT BY "CAPITAL INVESTMENT LAG".

A. In Exhibit GLS-3, capital investment lag represents the number of months between the time that a capital investment is closed and placed into service and the time that this investment is reflected in customer rates. As indicated in Column (b), most of Atmos Energy's comprehensive annual review mechanisms have a capital investment lag of 11 to 14 months. For a jurisdiction employing a typical historic test period ending capital basis for ratemaking, the average lag is six months plus the number of months between the end of the historic test period and when new rates are implemented. However, some jurisdictions have implemented measures to prevent capital investment lag. For example, Tennessee allows a "forward-looking" test year in its recently adopted mechanism, which prevents capital investment lag. In the same vein, Mississippi permits a projected level of capital investment in its annual stable rate filing, which also has the effect of preventing capital investment lag.

Q. WHAT ARE THE FINANCIAL CONSEQUENCES OF CAPITAL INVESTMENT LAG?

A. The immediate consequence is that the Company's capital investment goes unrecovered

and the Company bears the costs of this investment along with depreciation expense, property taxes and carrying costs during the lag period. As a result, the Company's return on the investment is delayed and by the time the return on investment is later recovered in rates, the value of the investment has been diluted due to the effect of accumulated depreciation. In this way, the capital investment lag creates a greater gap between the "allowed" and the "achieved" return. Because capital spending is the primary cause of the Company's need for rate adjustments, the impact of capital investment lag is even more detrimental.

Q. PLEASE DESCRIBE HOW THE CAPITAL INVESTMENT LAG PRODUCED AS A RESULT OF ATMOS ENERGY'S MOST RECENT KANSAS RATE CASE COMPARES TO THAT OF THE OTHER ATMOS ENERGY JURISDICTIONS.

A. The capital investment lag produced by Atmos Energy's most recent Kansas rate case is significantly longer than that of the Company's other jurisdictions. Even if the Company were to file a rate case in Kansas every year, capital investment lag would be longer than almost every other Atmos Energy jurisdiction. In a Kansas general rate case filing, the expected capital investment lag is 17 months. This is longer than in any of the several of Atmos Energy's jurisdictions with comprehensive annual rate reviews. Columns (c) and (d) of Exhibit GLS-3 show the jurisdictions without comprehensive annual rate reviews and which are still dependent on general rate case filings and the respective capital investment lag for their rate cases. Of those, only one of the other six jurisdictions dependent on periodic rate cases has a capital investment lag greater than Kansas.

Q. DOES THE KANSAS GAS SYSTEM RELIABILITY SURCHARGE ("GSRS")

PROVIDE A BRIDGE AND EXTENSION BETWEEN RATE CASES?

A. No, in part because of the 11 month capital investment lag produced by the GSRS process. This is not typical of the infrastructure replacement mechanisms in the other Atmos Energy jurisdictions in which they exist. For example, in Kentucky and Virginia, infrastructure replacement mechanisms produce zero lag for those programs. While the Gas Reliability Infrastructure Program ("GRIP") in Texas also has a maximum capital investment lag of 11 months, the GRIP applies to all investment types each year, while GSRS applies to only limited types of capital investments. In addition, GSRS imposes certain conditions which GRIP does not: a minimum financial filing threshold, a maximum cumulative GSRS revenue amount and a maximum impact on the monthly residential charge of $0.40 in any single filing.

Q. WHAT SOLUTION DOES THE COMPANY PROPOSE FOR KANSAS?

A. The Company is proposing an Annual Review Mechanism to reduce the frequency of litigated rate cases that will otherwise be necessary to recover costs associated with Atmos Energy's existing (and ongoing) level of safety and integrity investment.

Q. PLEASE DESCRIBE THE PROPOSED ANNUAL REVIEW MECHANISM.

A. The Company's proposed ARM is a formula rate mechanism that would provide a streamlined and cost effective annual review of the Company's cost of operations and actual return on equity to ensure that rates are set appropriately. The ARM would apply established ratemaking principles and pre-defined treatment of costs and would provide for a review of the Company's financial performance. Based on the review, the Company would then propose an annual adjustment to set rates for the prospective rate

effective period. The proposed new rates and supporting schedules would be subject to review by the Commission, which would maintain final authority over any change in rates.

Q. WHY DOES THE COMPANY BELIEVE THE ARM IS NECESSARY?

A. The ARM is necessary to balance the interests of assuring customer protections and meeting the Company's financial imperatives in providing safe and reliable service while minimizing the corresponding cost to participants in the rate-making process. As explained in greater detail by Atmos Energy witness Gary Gregory, the Company's capital requirements related to compliance with federal laws governing system integrity and safety enhancements will continue to be significant into the foreseeable future. Because of the nature of these costs, their projected magnitude, and the fact that these system enhancements do not generate incremental revenue to offset the capital expenditures, Atmos Energy is proposing to establish the ARM to provide for the recovery of costs associated with the Company's current and ongoing level of capital expenditures, along with changes in the Company's operation and maintenance expenses. We believe the ARM will also provide benefits to customers by avoiding the costly and resource-intensive process associated with traditional general rate cases and replacing it with a simple, straightforward and financially transparent process. An annual rate review, applying pre-defined treatment of costs for rate setting purposes would provide greater regulatory efficiency at substantially less cost to the customers. The ARM is less expensive and more efficient than a full blown rate case to adjust rates on a periodic basis to reflect the utility's actual cost of operations. The process protects

customers because the annual filings will be based upon and adhere to the rate-making principles established by the Commission in the utility's most recent general rate case filing. The proposed ARM process avoids re-litigating those issues and simply updates the utility's capital expenditures, costs and other rate case items based upon the decisions made by the Commission in this proceeding.

Q. DOES THE COMPANY BELIEVE THE ARM ADDRESSES CONCERNS EXPRESSED BY THE COMMISSION IN PARAGRAPH 59 OF THE FINAL ORDER IN DOCKET NO. 14-ATMG-320-RTS?

A. Yes. In paragraph 59 of the final order in Docket No. 14-ATMG-320-RTS the Commission stated,

> Finally, the Commission wishes to make known its concern about incurring rate case expenses in rate cases filed every two years, as has been Atmos's practice in recent years. As these expenses are borne by ratepayers, the Commission desires to ensure no rate case expense is unnecessary. To this end, in future rate case filings, the Commission 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.

Atmos Energy's ARM proposal will enable the Company to recover prudently incurred investment and operating costs while addressing the Commission's expressed concern about incurring rate case expenses associated with the changing of rates. Atmos Energy must be allowed the opportunity to earn a fair return on its investment for the benefit of both its customers, who depend on the utility to provide them safe and efficient service, and its shareholders, who expect a fair return on their investment. Currently, the only process available in Kansas to allow the Company the opportunity to earn a fair rate of return is the filing of a general rate case seeking approval to adjust base rates. Atmos Energy completely agrees with the Commission that the cost of litigating general rate

cases on a frequent basis, while generally litigating the same issues in those cases, is both time consuming and expensive and that there has to be a better way in which to provide the utility an opportunity to earn a fair return on its investment, while reducing rate case expense. Atmos Energy strongly believes that the use of an annual rate review mechanisms, like the one being proposed in this case and the ones that Atmos Energy operates under in several of its other jurisdictions, accomplishes these goals. It will allow Atmos Energy an opportunity to earn a fair return on its investment, avoid the time and expense of litigating rate cases and provide a reasonable basis to adjust rates on a periodic basis.

Q. HAS THE COMMISSION PREVIOUSLY APPROVED AN ANNUAL RATE REVIEW MECHANISM FOR ANY OTHER KANSAS UTILITY?

A. Yes. On September 26, 2013, the Commission approved an annual formula based ratemaking plan for the Southern Pioneer Electric Company unit of Mid-Kansas Electric Company in Docket No. 13-MKEE-452-MIS.

Q. DO FORMULA RATE MECHANISMS EXIST IN OTHER STATES THAT ARE SIMILAR TO THE COMPANY'S PROPOSED ARM IN KANSAS?

A. Yes. Attached to my testimony as Exhibit GLS-6 is the latest AGA Summary of Rate Stabilization Tariffs, extracted from their May 2015 update "Innovative Rates, Non-Volumetric Rates, and Tracking Mechanisms: Current List". The report states that these formula rate mechanisms exist in eight states for fourteen utility jurisdictions.

Q. HOW MANY OF THESE EIGHT STATES AND FOURTEEN UTILITY JURISDICTIONS DOES ATMOS ENERGY ACCOUNT FOR OUT OF THE TOTAL?

A. Four of the states/jurisdictions listed are currently part of Atmos Energy and one of the states/jurisdictions (Georgia) was a formula plan filed and approved while Atmos Energy owned that gas utility property. Currently, Atmos Energy accounts for eight of the fourteen utility jurisdictions with annual formula ratemaking. I would note that within Texas, we actually have three separate formula rate mechanism tariffs and two separate tariffs within Louisiana.

Q. HOW LONG HAS ATMOS ENERGY OPERATED UNDER FORMULA RATE MECHANISMS?

A. The Company has successfully operated under various formula rate mechanisms in Louisiana since the early 1990s, in Mississippi since the purchase of the division in 2002 and in Texas since 2008. In addition, the Tennessee formula rate mechanism was approved in May 2015 and we anticipate making our first Tennessee ARM filing in February 2016.

Q. ARE THE FORMULA REVIEW MECHANISMS IN LOUISIANA, MISSISSIPPI, TEXAS AND TENNESSEE SIMILAR TO THE ARM PROPOSED FOR KANSAS?

A. Yes. Although the rate filing packages are tailored to fit each regulatory jurisdiction's specific regulations, the general process of an annual filing, regulatory review and resulting rate adjustments are very similar to the Kansas ARM proposal. The theory

behind the annual rate review mechanism has been put into practice by the Company and these other regulatory bodies and, from a practical standpoint, has met the goals of the mechanisms and balances the interests of the customers, regulators and the utility's shareholders that I mentioned earlier in my testimony. We will offer, as part of the discovery in this rate case, to meet with Staff and the Citizens' Utility Ratepayer Board ("CURB") and make a presentation showing them (1) how this mechanism has been tested, and (2) how it has worked well over the years for the customers, regulators and the Company in these other jurisdictions.

Q. WOULD THE MECHANISM HAVE THE SAME BENEFITS IF ADOPTED IN KANSAS?

A. Yes.

Q. HAS THE COMPANY PROPOSED A RATE FILING PACKAGE TAILORED TO FIT KANSAS REGULATIONS?

A. Yes. As illustrated in the proposed tariff and discussed above, the rate filing package will cover the minimum filing requirements required by K.A.R. § 82-1-231 (2009) as well as include standard data requests submitted by Commission Staff upon initial receipt of a rate case filing.

IV. ANNUAL REVIEW MECHANISM MECHANICS

Q. HOW WOULD THE PRE-DEFINED TREATMENT OF COSTS FOR RATE SETTING PURPOSES BE ESTABLISHED FOR THE ARM?

A. Rate setting cost treatments would be established by the Commission's Final Order in

this rate case docket. This case would establish the methodologies for normalizing and annualizing revenues and costs and would identify the costs to be allowed and/or disallowed for recovery in rates. This case would also define the method of computing an updated capital structure and would establish the return on equity to be used for the ARM calculations. In addition, the Final Order in this rate case docket would establish the revenue allocation principles to be applied in future ARM rate changes. By adopting these regulatory procedures and principles and not re-litigating these issues, the ARM will streamline the review and significantly lower the associated legal and consulting costs for the parties. These lower litigation costs would directly benefit our customers.

Q. PLEASE DESCRIBE THE FILING PROCESS FOR THE PROPOSED ARM.

A. The mechanism is described in full in the Company's proposed new Section IX of the Kansas tariffs (Exhibit GLS-1). No later than July 1 of each year, the Company will file financial schedules, (more specifically identified in the proposed tariff) relating to the preceding twelve month period ending March 31 (the "Evaluation Period"). Accounting and pro-forma adjustments to the historical period would be applied and identified consistent with treatment resulting from the Final Order in this Docket. Adjustments to rate base and operations and maintenance expenses would be applied for ratemaking purposes also consistent with Commission precedent established in this Docket. Based upon this analysis of the Evaluation Period, a revenue deficiency or sufficiency is calculated. In all calculations within the ARM mechanism, the benchmark return on common equity ("ROE") is set to equal the ROE approved in this Docket.

Any change in rates resulting from the calculations would be applied for the 12-

month period beginning the following November 1st.

Q. HOW DOES THE PROPOSED KANSAS ARM COMPARE TO THE ANNUAL ADJUSTMENT MECHANISMS FOR THE COMPANY IN OTHER JURISDICTIONS?

A. Although the annual review mechanisms employ similar filing and review processes, each has its own set of review periods, allowed ROE, as well as its own underlying capital investment lag. In Exhibit GLS-3, "Atmos Energy Rate Mechanisms", columns (a) and (b) summarize the Capital Investment Lag for each of the seven annual comprehensive review mechanisms currently utilized by the Company. Five of the seven have capital investment lags ranging from 11 to 14 months. Two jurisdictions (Mississippi and Tennessee) have forwarding-looking test years, so they have a zero month capital investment lag. The proposed Kansas ARM will have a 13 month capital investment lag.

Q. WHAT IS THE RETURN ON EQUITY FOR EACH OF THE OTHER ATMOS ENERGY ANNUAL REVIEW MECHANISMS?

A. The Louisiana jurisdictions have a 9.8% ROE, Mississippi currently has a 10.23% ROE, and Tennessee has a 9.8% ROE. In Texas, the Dallas ROE is 10.1%, and the ROE is 10.5% for all other Mid-Tex Division and West Texas Division cities operating under their Rate Review Mechanism. The ROE is fixed from year to year for these mechanisms except in Mississippi, which employs a formula to recalculate the ROE each year.

Q. HOW DOES THE COMPANY'S PROPOSED 122-DAY TIME PERIOD FOR THE COMMISSION'S REVIEW OF THE ARM FILING COMPARE TO THE TIME PERIODS FOR REGULATORY REVIEW OF THE COMPANY'S FORMULA RATE MECHANISMS IN OTHER JURISDICTIONS?

A. In Texas, the Rate Review Mechanism for the Mid-Tex Division (the Company's largest customer base) and the West Texas Division both afford 92 days between the filing date and rate implementation. For the City of Dallas, the Dallas Annual Rate Review tariff affords 137 days between the filing date and rate implementation. In Louisiana, the Company's two tariffs afford 75 and 76 days between the filing date and rate implementation. In Mississippi, the Stable Rate Filing provides 57 days between the filing date and rate implementation. Thus, the Company's proposed time period for Commission's review of the ARM filing is significantly longer than most of the Company's other jurisdictions with formula rate mechanisms.

Q. DESCRIBE THE COMPANY'S FILING PACKAGE IN THE PROPOSED ARM.

A. The ARM filing package would be very similar to a traditional rate case filing package. The list of Schedules is detailed in the proposed tariff. Additionally, the filing will include supplemental information similar to that provided in response to initial discovery requests typically issued by Commission staff and CURB in a general rate case proceeding. The Company proposes to supplement its standard rate case filing package to streamline and aid the review by Commission staff and interveners.

Q. WHAT IS THE PURPOSE OF THE COMPANY'S PROPOSED TECHNICAL CONFERENCE REFERENCED IN THE TARIFF?

A. In the proposed technical conference, the Company would be prepared to explain to the parties the filing package schedule by schedule, demonstrating the Company's adherence to the ratemaking adjustments prescribed by the Final Order in this rate case. Staff and interveners would have the opportunity to informally ask questions of the Company regarding the filing schedules and expenses. In addition, Staff and interveners would have the opportunity to submit follow-up formal data requests following the technical conference. In this way, the technical conference proposed by the Company would serve to "jump-start" the regulatory review by Staff and interveners.

Q. WOULD TESTIMONY BE REQUIRED OF THE COMPANY RELATING TO THE ANNUAL FILING?

A. Atmos Energy does not propose requiring the submittal of pre-filed testimony. However, the Company proposes that a Division Officer of the Company with responsibilities for Kansas would be required to certify that the schedules filed are in compliance with the provisions of the ARM tariff and that the information is true and correct to the best of his or her knowledge.

Q. WOULD THE COMPANY ANTICIPATE FILING GSRS IN CONJUNCTION WITH THE ARM?

A. No. The ARM would alleviate the need for GSRS as well as frequent comprehensive rate cases. Nor does the Company plan to file for periodic adjustments under the Ad Valorem Tax surcharge while operating under the ARM.

Q. HOW WOULD PROPOSED CHANGES IN DEPRECIATION RATES BE HANDLED IN THE ARM?

A. The ARM calculations would exclusively utilize the depreciation rates most recently approved by the Commission.

Prudent rate making and accounting require that depreciation rates be updated periodically. The Company typically endeavors to update its depreciation rates in its various operating divisions and entities housing shared assets (such as the Colorado-Kansas Division General Office and Corporate Shared Services) every four to six years. For various reasons, that timeframe may be extended due to rate proceeding filing schedules or other circumstances. In the event Atmos Energy conducts a depreciation study for its Kansas operations or any of the entities that house shared assets that support Kansas operations, the Company would file the depreciation study with the Commission and CURB and ask that the rates contained in the study be approved for its next annual review. Following any necessary discovery, rebuttal and ultimate approval of new rates, the Company will calculate depreciation expense using the newly approved rates in its subsequent annual rate review filing. To assist with this review, the Company will file any new depreciation study when it is completed, rather than waiting until it makes its June 1 annual review filing.

Q. HOW WOULD COSTS INCURRED BY STAFF OR CURB BE RECOVERED FOR THEIR REVIEW OF THE ARM?

A. Again, expenses for the regulatory review of the ARM filings should be dramatically lower than those experienced in comprehensive rate cases. Costs that are incurred in the ARM review would be reimbursed by the Company and reflected in its Operating & Maintenance expenses.

Q. IS THE COMPANY PROPOSING A PREDETERMINED EXPIRATION DATE OR PILOT TERM FOR THE ARM?

A. No. The Company is not proposing an end date for the ARM. The Company does not believe that a pilot term is necessary given the experience that the Company has had with the mechanism in other jurisdictions. Also, the proposed ARM does not preclude the Company from filing a rate case to remove the tariff. Nor does it limit the authority of the Commission in any way to require the Company to "show-cause" why a rate case shouldn't be required of the Company.

Q. HOW IS THE ARM PROPOSAL AFFECTED BY THE COMPANY'S REQUEST FOR COMMISSION APPROVAL OF AN ABBREVIATED RATE FILING PURSUANT TO K.A.R. 82-1-231(b)(3)?

A. If the ARM tariff is approved by the Commission, the abbreviated rate filing would not be necessary.

Q. IF THE COMMISSION APPROVES THE PROPOSED ARM, WOULD THIS ENABLE THE COMPANY TO ACCELERATE ITS PROGRESS ON ELIMINATING OBSOLETE MATERIALS IN THE KANSAS SYSTEM?

A. No. The ARM is proposed as a stream-lined, lower cost means of reviewing rate increases necessary under the Company's current level of spending and capital investment. This incumbent spending level has led to frequent comprehensive rate cases and GSRS filings in recent years with associated rate case expenses borne by customers. Comprehensive rate cases, GSRS filings and Ad Valorem Tax surcharge filings would all be eliminated by the proposed ARM. In order to achieve any step-change in pace of

infrastructure replacement in Kansas, the Company requests approval of the System Integrity Program tariff described next in my testimony.

V. SYSTEM INTEGRITY PROGRAM

Q. PLEASE DESCRIBE THE PURPOSE OF THE SYSTEM INTEGRITY PROGRAM IN SCHEDULE X OF THE COMPANY'S PROPOSED TARIFFS.

A. The SIP is specifically intended to allow the Company to accelerate its progress in the replacement of obsolete materials in the Kansas system, which could not occur otherwise.

Q. COULD YOU PLEASE DESCRIBE THE COMPANY'S PROPOSED SIP MECHANISM?

A. Yes. The SIP is a quarterly surcharge mechanism meant to support and recover the costs incurred by the Company as a result of its proposed acceleration of investment in obsolete pipe replacement projects. The need for such accelerated replacement of obsolete Kansas pipe operated by the Company is addressed in the testimony of Company witnesses Gary Gregory, John McDill and Christian (Troy) Paige. The SIP, as proposed, is exclusive of costs being incurred under Atmos Energy's existing pipe replacement programs (which are intended to be recovered under the ARM) and is meant solely to facilitate the acceleration of replacement of obsolete Kansas pipeline facilities. As proposed, the SIP would be an experimental five year mechanism subject to renewal or modification at the end of its initial term.

Q. HAS THE COMPANY CONSIDERED THE COMMISSION'S CURRENT GENERAL INVESTIGATION REGARDING THE ACCELERATION OF REPLACEMENT OF NATURAL GAS PIPELINES CONSTRUCTED OF OBSOLETE MATERIALS CONSIDERED TO BE A SAFETY RISK IN DOCKET NO. 15-GIMG-343-GIV ("343 DOCKET") IN THEIR DEVELOPMENT OF THE PROPOSED SIP?

A. Yes. In particular, the Company has attempted to address each of the eleven suggestions from Commission Staff found in Attachment 1 in their memorandum to the Commissioners regarding the 343 Docket. This memorandum, dated February 2, 2015, is included as Exhibit GLS-5.

Q. PLEASE REVIEW EACH OF THE ELEVEN RECOMMENDATIONS AND THE COMPANYS POSITION FOUND IN ITS SIP PROPOSAL.

A. The first of the Staff's eleven recommendations is that Aging Infrastructure Investment Plans should initially be filed as a five year pilot. The Company's SIP tariff is proposed as a five-year pilot program.

Staff's second suggestion is that such plans should be utility-specific programs to replace obsolete infrastructure on an expedited basis compared to current pace. The Company's proposed ARM tariff provides a path for rate recovery of current investment levels. The SIP, as suggested by Staff, would address only the accelerated portion of the investments made by Atmos Energy with respect to replacing obsolete materials.

Q. PLEASE CONTINUE WITH STAFF RECOMMENDATION NUMBERS 3 AND 4.

A. The Staff's third recommendation was that the initial filing should provide a roadmap for

replacement of all undesirable piping that is in a utility's inventory in order to provide the Commission and the ratepayers with an understanding of magnitude of a program to remove obsolete gas piping from the system. Under the Company's proposal, and as discussed in more detail by Mr. Paige, the known inventory of obsolete gas system materials has been identified. Based on construction costs from similar type projects constructed in 2014, I estimate that the Company would need to invest a total of $591.5 million (in 2014 dollars) to replace all known bare steel, PVC, Aldyl-A and Century services, yard lines and mains. Assuming the program would be executed over a 35 year period, the initial year of spending would be approximately $17 million. Inflationary impacts on construction costs for the program period are unknown. Depending on impact of inflation, the total program costs could range from $722 million (1% inflation) to slightly more than $1 billion (3% inflation), thus the Company believes that our proposal under the SIP would fulfill the Staff's third suggestion.

The Staff's fourth recommendation was that an accelerated replacement program should be focused on removing the highest risk piping in the utility's inventory first. That objective is shared in the proposed SIP.

For further insight into the Company's approach to recommendations 3 and 4, please refer to the direct testimony of Troy L. Paige.

Q. WHAT WAS STAFF RECOMMENDATION NUMBERS 5 THROUGH 7?

A. Number 5, Staff recommended that the proposed programs be required to result in an increase in overall capital expenditures for the replacement of aging natural gas infrastructure in Kansas. That will occur under the Company's proposed SIP.

Staff recommendation number 6 suggests that initial filings be required to include projected yearly replacement levels and capital expenditures. That will occur under the Company's proposed SIP.

Staff recommendation number 7 states that the utility be required to file annual compliance filings detailing progress made in the last year, deviation from initial projections, and revisions to remaining plan projections, if any. The Company proposes such annual reporting in its SIP.

For further insight into the Company's approach to recommendations 5 through 7, please refer to the direct testimony of Troy L. Paige.

Q. WHAT WAS STAFF RECOMMENDATION NUMBER 8?

A. Staff suggested that a utility requesting an alternate ratemaking mechanism include an agreement from the utility to not file a rate case more often than once every three years. In this recommendation, Staff proposes that the utility would absorb a portion of rate case expenses if they filed rate cases more frequently than every three years. Staff reasons that favorable alternative rate treatment for the incremental capital investment under an Aging Infrastructure Investment Plan would relieve rate increase pressures for incumbent spending levels. Clearly, Atmos Energy's current, incumbent spending levels would be unaffected by the treatment of incremental, accelerated capital spending, and would require rate increases more frequently than every three years. However, the Company's proposed ARM addresses this issue and achieves the intended avoidance of costly comprehensive rate cases and the associated rate case expenses.

Q. WHAT WAS STAFF RECOMMENDATION NUMBER 9?

A. In recommendation number 9, Staff proposes the utility be required to track savings in operations and maintenance expense that can be directly attributable to a pipe replacement program. Further, Staff suggested that the identified savings should be used to offset the costs of the ongoing replacement program. The Company will attempt to identify such operations and maintenance expense reductions. The annual flow-through of any such benefits is assured under the Company's proposed ARM tariff.

Q. WHAT WERE STAFF RECOMMENDATIONS NUMBER 10 AND 11?

A. Staff recommendations 10 and 11 outline their proposed means of cost recovery options. Recommendation 10 suggests two primary avenues for recovery: deferred cost recovery or a yearly surcharge option. Recommendation 11 states that other alternative ratemaking methodologies could be considered by the Commission. The Company's proposed SIP calls for a quarterly surcharge option which, although not comporting to the two avenues stated in recommendation 10, does achieve a primary goal of Staff: the retention of some regulatory lag in theses incremental investments.

VI. SYSTEM INTEGRITY PROGRAM MECHANICS

Q. HOW WOULD THE SCOPE OF THE SIP BE ESTABLISHED?

A. The Company would file a multi-year project plan and goals with the Commission on February 1, 2016. The time period for the Commission's review and acceptance of the SIP program goals and the projects for the first plan year would completed by May 1, 2016. The first SIP plan year (a nine-month stub period) would begin July 1, 2016

through March 31, 2017. Four successive 12-month periods thereafter from April 1 through the following March 31 would define the five year SIP pilot.

Q. WOULD SIP PROJECTS BE TRACKED SEPARATELY FROM OTHER INVESTMENTS?

A. Projects and related costs recovered through the SIP would be excluded from the annual ARM tariff revenue requirement calculations. Though these calculations are conducted separately through the five-year SIP pilot, the components are added together for a single rate adjustment to the customers.

Q. HOW WOULD PROJECTS APPROVED IN THE SIP BE TRACKED SEPARATELY FROM OTHER INVESTMENTS IN THE ARM?

A. The Company would utilize its PowerPlant Accounting System, which has the functionality to separately track these specific system integrity projects.

Q. PLEASE DESCRIBE THE RATE TREATMENT FOR QUALIFIED SIP INVESTMENTS.

A. The revenue requirement associated with closed SIP projects would be updated and rates refreshed every three months. The first quarterly rate adjustment filing for the SIP would occur in mid-October 2016. The quarterly filing will list approved SIP projects completed during the period from July 1, 2016 through September 30, 2016. Subject to regulatory review, rates would be changed effective November 1, 2016.

Q. HOW CAN REGULATORY REVIEW OF THE SIP RATE CHANGE BE ACCOMPLISHED IN SUCH A SHORT TIMEFRAME?

A. The initial regulatory review would consist of a check that the identified quarterly projects match up with the annual review SIP projects as previously approved by the Commission. Second, the revenue requirement calculation would be verified. Finally, the rate change necessary to produce the additional revenue requirement would be verified. We believe that this regulatory review of the quarterly SIP rate change is less complex than the Purchased Gas Adjustments that often occur on a monthly basis.

Q. WHEN WILL A MORE THOROUGH REGULATORY REVIEW OF PROJECT INVOICES OCCUR?

A. Each December the Company will file a SIP project plan for the upcoming SIP plan year, along with a report of closed SIP projects through the prior September 30th. These annual updates will provide project details and afford discovery opportunities relating to invoices and charges to those SIP projects. Any regulatory adjustments or reclassifications of costs will be reflected in the next quarterly rate change. The first report cycle in December 2016 will provide details for SIP projects closed from July 1, 2016 through September 30, 2016. For subsequent periods, project details will be provided for 12-months of activity through the preceding September.

Q. PLEASE DESCRIBE HOW THE QUARTERLY SIP FILINGS CORRESPOND TO THE ANNUAL ARM ADJUSTMENT.

A. First of all, the investments and revenue requirement recovered through the SIP are excluded in the ARM calculations. SIP investments and costs are tracked and recovered separately throughout the proposed five-year SIP pilot term.

The quarterly rate adjustments under SIP occur each November 1, February 1, May 1 and August 1. The ARM rate adjustment occurs each November 1. Therefore, customers will experience four non-gas cost related rate changes each year. Exhibit GLS-4 shows the various filing and rate change timelines for the ARM and the SIP over the next five years. Thought was given to the regulatory review cycles for each tariff. Regulatory review of the ARM occurs July through October each year with the ARM rate change implemented each November 1. In years subsequent to the initial SIP filing, Staff review of prior year project details and approval of the upcoming year projects occurs each December through January. Thus, the detailed SIP annual review does not occur while the ARM filing is underway.

Q. WHAT HAPPENS AT THE END OF THE SIP FIVE-YEAR PILOT TERM?

A. The Company proposes to file a SIP report in December 2019 reviewing the success of the SIP to date with respect to its original goals, as approved in May 2016 or modified thereafter by the Commission. In that report, the Company will make a proposal for continuance or refinement of the SIP program beyond its initial five-year pilot term. Commission acceptance of any SIP program going forward would be sought by June 1, 2020. That timing would afford the Company sufficient time for planning for SIP projects after the conclusion of the five-year pilot ending March 2021.

The Commission would also decide by June 1, 2020 whether to roll accumulated SIP revenue requirements for the initial pilot program into the ARM recovery process if the SIP program continues beyond the pilot term.

Q. HOW DOES THE SIP OPERATE AS PROPOSED SINCE THE 343 DOCKET IS NOT YET COMPLETE?

A. The Company is hopeful that the Commission will find our proposed programs and rate treatment to be an appropriate solution to the acknowledged challenge of accelerating the replacement of aging gas distribution facilities. Atmos Energy believes our proposal is responsive to Staff comments in that docket. In any event, the Company would modify its SIP proposal, if necessary, to comport with the Commission's Order in the 343 Docket.

Q. DOES ATMOS ENERGY HAVE SYSTEM INTEGRITY PROGRAMS IN OTHER JURISDICTIONS?

A. Yes. In addition to the regulatory momentum toward annual rate reviews referenced earlier in testimony, we have seen a great interest in increasing the pace of infrastructure replacement in the states we serve.

Q. DO THOSE PROGRAMS AFFORD SPECIAL RATE TREATMENT FOR QUALIFIED INVESTMENTS?

A. Yes. Refer to Exhibit GLS-3, particularly columns (e) through (h) which summarize jurisdictions with special trackers for infrastructure replacement investments only. Note that Kentucky and Virginia, which do not presently have comprehensive annual review mechanisms, have stand-alone rate adjustment mechanisms for infrastructure replacement investments. In addition, Colorado has proposed a stand-alone rate adjustment mechanism for infrastructure replacement investments in a pending docket.

Finally, in Texas, areas not under annual rate reviews are afforded special rate treatment for infrastructure replacements.

Special capital treatment is afforded to infrastructure replacements in conjunction with annual rate reviews in Louisiana divisions and Texas divisions. As stated previously, Tennessee and Mississippi mechanisms forward-look all capital, so their infrastructure investments are already at a zero month capital investment lag. Thus, Colorado and Kansas are Atmos Energy's only jurisdictions not currently providing some type of ratemaking stimulus to accelerate infrastructure replacement.

Q. WHAT CAPITAL INVESTMENT LAG UNDERLIES EACH OF THE INFRASTRUCTURE RATEMAKING PROGRAMS?

A. With reference to columns (f) and (h) in Exhibit GLS-3, all of the existing enhanced infrastructure treatments produce zero months capital investment lag.

Q. WITH THE PROPOSED QUARTERLY RATE ADJUSTMENTS IN THE KANSAS SIP, WHAT IS THE UNDERLYING CAPITAL INVESTMENT LAG?

A. Two and one-half months.

Q. HAVE OTHER STATES BEYOND THOSE SERVED BY ATMOS ENERGY ADOPTED COST RECOVERY MECHANISMS TO ACCELERATE INFRASTRUCTURE REPLACEMENT?

A. Yes. Please refer to Exhibit GLS-7, "States with Accelerated Infrastructure Cost Recovery". This information, extracted from a May 2015 AGA report, shows that 84 utility jurisdictions have such mechanisms in 32 states plus the District of Columbia.

VII. SUMMARY OF TESTIMONY

Q. CAN YOU SUMMARIZE YOUR DIRECT TESTIMONY?

A. Yes. Atmos Energy's proposed ARM mechanism is needed to support the ongoing current level of safety and integrity related investment being made by the Company in Kansas in order to avoid repeated general rate case filings at intervals of 12-18 months. Failure to approve the ARM (which is just an abbreviated rate adjustment mechanism) will result in continued rate case filings at short-intervals as Atmos Energy continues to make investments to comply with safety and integrity related requirements of federal law.

The SIP mechanism is needed in order to facilitate an acceleration of the current pace of replacement of old and obsolete pipeline facilities within the State of Kansas, consistent with the need to accomplish such replacements outlined in the testimony of Company witnesses Paige and McDill and as discussed by Staff in its report in the 343 Docket.

Approval of both tariff proposals is essential to address two important regulatory challenges Atmos Energy and its customers face in Kansas: 1) reduce rate case expenses related to frequent general rate case filings, and 2) accelerate the pace of replacing obsolete materials in the Kansas distribution system.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

VERIFICATION

STATE OF TEXAS)
)
COUNTY OF DALLAS)

Gary L. Smith, being duly sworn upon his oath, deposes and states that he is 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.

Gary L. Smith

Subscribed and sworn before me this 21st day of July, 2015.

Notary Public

My appointment expires: 10-29-16

NOTARY PUBLIC STATE OF TEXAS
PAMELA L. PERRY
My Commission Expires
October 29, 2016

Form RF

Index No.

THE STATE CORPORATION COMMISSION OF KANSAS

Proposed Schedule IX: Annual Review Mechanism

ATMOS ENERGY CORPORATION
(Name of Issuing Utility)

ENTIRE SERVICE AREA
(Territory to which Schedule is applicable)

No Supplement or separate understanding shall modify the tariff as shown hereon.

SCHEDULE IX – ANNUAL REVIEW MECHANISM

APPLICABILITY

This rider is applicable to every bill for service provided under each of the Company's sales and transportation rate schedules except where not permitted under a separately negotiated contract with a customer.

PURPOSE

This mechanism is designed to provide annual earnings review. If, through the implementation of the provisions of this mechanism, it is determined that rates should be decreased or increased, then rates will be adjusted accordingly in the manner as set forth herein. The rate adjustments implemented under this mechanism will reflect annual changes in the Company's cost of service and rate base.

DEFINITIONS

1. The **Annual Evaluation Date** shall be the date the Company will make its annual filing under this mechanism. The Annual Evaluation Date shall be no later than July 1 of each year. This filing shall be made in electronic form where practicable.
2. The **Evaluation Period** is defined as the twelve month period ending March 31 of each year.
3. The **Rate Effective Period** is defined as the twelve month period in which rates determined under this mechanism shall be in effect. The Rate Effective Period shall run from November 1 to October 31.
4. **Final Order** refers to the final order issued by the State Corporation Commission of the State of Kansas (the "Commission") in the Rate Case filed by the Company in Docket No. 16-ATMG-__-RTS.
5. **Intervener(s)** refers to the Citizens' Utility Ratepayer Board ("CURB") or any other party granted intervention by the Commission.

ANNUAL REVIEW MECHANISM FILING

The Company shall file with the Commission the schedules specified below for the twelve month period ending March 31 of each year (the "Evaluation Period"), with the filing to be made no later than June 1. Copies of the filing shall also be provided to Interveners. The schedules will include the following:

Section 1 – Application, letter of transmittal, and authorization
Section 3 - Summary of Rate Base, Operating Income and Rate of Return
Section 4 – Plant in Service
Section 5 - Accumulated Provision for Depreciation and Amortization
Section 6 – Working Capital
Section 7 – Capital and Cost of Money
Section 8 – Financial and Operating Data
Section 9 – Test Year and Pro Forma Income Statements
Section 10 – Depreciation and Amortization
Section 11 – Taxes

Issued:	August	13,	2015
	(Month)	(Day)	(Year)
Effective:	Upon Commission Approval		
	(Month)	(Day)	(Year)
By:	/s/ Jennifer Ries	Vice President, Rates & Regulatory Affairs	
	(Signature of Officer)		(Title)

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Section 12 – Allocation Rates
Section 13 – Annual Report and 10K Filing
Section 14 – Rate Base Offsets
Section 16 – Financial Statements for the Most Recent Fiscal Year
Section 17 - Revenue, Sales, Customer Data
Section 18 – Proposed Tariffs

The schedules will provide the Company's actual net plant in service, construction work in progress, accumulated deferred income taxes, inventory, working capital, and other rate base components. The schedules shall also show the utility's depreciation expense, operating and maintenance expense, income taxes, taxes other than income taxes, and other components of income for return, its revenues, and its capital structure, cost of debt, overall cost of capital, and return on common equity as approved by the Commission and reflected in the Final Order.

A. The filing will include all applicable accounting and pro-forma adjustments historically permitted or as reflected in the Final Order.

B. The filing will include pro-forma adjustments to annualize costs and revenue billing determinants for the Rate Effective Period in accordance with methodologies in the Final Order,

C. The filing will include pro-forma or other adjustments required to properly account for atypical, unusual, or nonrecurring events, in accordance with methodologies in the Final Order,

D. The Company also shall provide a schedule demonstrating the "proof of revenues" relied upon to calculate the proposed rate for the Rate Effective Period. The proposed rates shall conform as nearly as is practicable to the revenue allocation principles approved in the Final Order.

E. The Company shall separately track and record capital projects approved by the Commission under Schedule X of the tariff (System Integrity Program, or "SIP") from those recovered under the annual ARM filing. The revenue requirement associated with these SIP projects shall be excluded in the ARM calculations, unless and until the SIP tariff is no longer in effect or the Commission deems that past SIP costs should be rolled into the ARM calculations.

F. The Filing will include other information from the Company's books and records similar to that provided in response to initial discovery requests issued by Commission staff in a general rate case proceeding.

G. The Company shall also include all costs incurred by the CURB office and the Commission Staff in their review of these annual filings under this mechanism. These costs will be included in the Company's operating and maintenance costs.

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ATMOS ENERGY CORPORATION
(Name of Issuing Utility)

ENTIRE SERVICE AREA
(Territory to which Schedule is applicable)

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H. If and when the Company performs a new depreciation study, the new study will be filed with the Commission. Following any appropriate discovery and rebuttal, and conditioned upon approval by the Commission of new rates, the Company shall calculate depreciation expenses using the newly approved rates in its subsequent Annual Review Mechanism Filing.

I. These schedules shall identify the rate adjustments necessary for the Rate Effective Period,
   1) If Company's earnings during the Evaluation Period exceed the return on common equity established in the Final Order, the Company shall calculate an adjustment to rates to refund the revenue required to achieve a return on equity for the Evaluation Period equal to the return established in the Final Order.
   2) If Company's earnings are below the allowed return on common equity established in the Final Order, the Company shall calculate an adjustment in rates to collect the additional revenue required to increase its return on equity for the Evaluation Period to the allowed percentage.

VERIFICATION

A sworn statement shall be filed by a Division Vice President with responsibilities for Kansas affirming that the filed schedules are in compliance with the provisions of this mechanism and are true and correct to the best of his/her knowledge, information and belief. No pre-filed testimony shall be required.

TECHNICAL CONFERENCE

The Company, Staff and Interveners will endeavor to hold a technical conference regarding the filing within ten (10) business days after the Filing Date.

EVAULATION PROCEDURES

The Commission staff and Interveners shall have 90 days to review the Company's filed schedules and issue its recommendation to the Commission for the change in rates under this tariff. The Company will be prepared to provide supplemental information as may be requested to ensure adequate review by the Commission and Interveners. The Commission shall propose any adjustments it determines to be required to bring the schedules into compliance with the above provisions.

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	(Signature of Officer)		(Title)

Form RF

Index No.

THE STATE CORPORATION COMMISSION OF KANSAS

Proposed Schedule X: System Integrity Program

ATMOS ENERGY CORPORATION
(Name of Issuing Utility)

ENTIRE SERVICE AREA
(Territory to which Schedule is applicable)

No Supplement or separate understanding shall modify the tariff as shown hereon.

SCHEDULE X – SYSTEM INTEGRITY PROGRAM

APPLICABILITY

This rider is applicable to every bill for service provided under each of the Company's sales and transportation rate schedules except where not permitted under a separately negotiated contract with a customer.

PURPOSE

This System Integrity Program ("SIP") mechanism is designed to promote additional capital investment which will be required in order to accelerate the pace of replacement of obsolete materials in the Kansas distribution system. If, through the implementation of the provisions of this mechanism, it is determined that rates should be decreased or increased, then rates will be adjusted accordingly in the manner as set forth herein. The rate adjustments implemented under this mechanism will reflect quarterly changes in the Company's cost of service and rate base related to the completed qualified projects.

DEFINITIONS

1. The **Initial SIP Plan Filing** by the Company will include known inventory of obsolete materials in the Kansas distribution system, a five-year general plan of projects intended under the SIP, overall goals for progress on replacing obsolete materials, an estimate of expected capital investment for the program, and a detailed project plan for the first SIP Plan Year. The date for the Initial SIP Plan Filing by the Company shall be no later than February 1, 2016.
2. **Overall SIP Plan Objectives and Goals** shall be approved by the Commission upon review of the Initial SIP Plan Filing. Approval will be targeted for May 1, 2016.
3. The **SIP Plan Year** is the period from April 1 through March 31 of the following calendar year. SIP Plan Year 1 is the nine-month period from July 1, 2016 through March 31, 2017.
4. The **Annual SIP Project Plan** will be filed by December 1 each year for SIP Plan Years 2 through 5. Approval of the plan will be targeted for February 1 each year.
5. The **Quarterly SIP Rate Change** occurs each May 1, August 1, November 1 and February 1.
6. **SIP Projects** are those approved by the Commission as qualified projects under this program.
7. The **Annual SIP Review** shall be conducted by the Commission to review the appropriateness of charges to SIP projects closed through the prior September.
8. **Intervener(s)** refers to the Citizens' Utility Ratepayer Board ("CURB") or any other party granted intervention by the Commission.

SYSTEM INTEGRITY PROGRAM FILING

Initial SIP Plan Filing, Establishment of the Overall SIP Plan Objectives and Goals, and SIP Plan Year 1 Projects

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Form RF

Index No.

THE STATE CORPORATION COMMISSION OF KANSAS

Proposed Schedule X: System Integrity Program

ATMOS ENERGY CORPORATION
(Name of Issuing Utility)

ENTIRE SERVICE AREA
(Territory to which Schedule is applicable)

No Supplement or separate understanding shall modify the tariff as shown hereon.

The Company shall file with the Commission and Intervener(s) its Initial SIP Plan Filing by February 1, 2016. The Plan will include known inventory of obsolete materials in the Kansas distribution system, a five-year general plan of projects intended under the SIP, overall goals for progress on replacing obsolete materials and estimated capital investment levels for the program. The Initial SIP Plan Filing will also include a detailed project plan for the first SIP Plan Year. The Commission and Intervener(s) will have a total of three months for discovery and review of the proposed five year pilot and the specific projects proposed for the first SIP Plan Year.

By May 1, 2016, the Commission will approve the Overall SIP Plan Objectives and Goals for the five-year pilot period. By that same date, the Commission will approve SIP Projects proposed for SIP Plan Year 1.

SIP Plan Execution, Quarterly SIP Rate Change and Annual SIP Review

The Company will commence construction on SIP projects for SIP Plan Year 1 on or about July 1, 2016. The first Quarterly SIP Rate Change Filing will be made by the Company on or before October 14, 2016 for SIP Projects completed during the period from July 1, 2016 through September 30, 2016. The Company's Quarterly SIP Rate Change Filing will include a listing of the SIP Projects completed during the period, the total capital investment for each project, accumulated depreciation, accumulated deferred income taxes, depreciation expense and ad valorem taxes. The filing will also compute the associated revenue requirement for SIP Projects completed and the proposed rates, which will be apportioned to each class and rate component based on the margin proportions approved in the prior rate case or ARM result. A description of the SIP revenue requirement calculation is provided below. The Commission will validate that the SIP Projects listed in the quarterly filing correspond to the qualified SIP Projects approved by the Commission for the SIP Plan Year. Further, the Commission will validate that the revenue requirements calculations and proof of rates calculations are correct. Approval of the Quarterly SIP Rate Change will be attained with the first rate change effective on November 1, 2016. This process will be followed each quarter throughout the SIP tariff period.

With each December filing, on or about December 16, the Company will also file with the Commission and Intervener(s) a SIP Plan Review including detailed project reports for those SIP Projects completed through the prior September 30. Upon completion of the SIP Plan Review, the Commission will determine whether any regulatory adjustments or reclassification of costs is warranted. Any such adjustments will be reflected in the following quarterly rate change.

Quarterly SIP Rate Change Calculations

The SIP revenue requirement includes the following:

a) SIP Project plant in-service minus the associated accumulated depreciation and accumulated deferred income taxes;

b) Retirement and removal of plant related to SIP Projects;

c) The rate of return on the net rate base is the overall rate of return on capital authorized in the Final Order _____, grossed up for federal and state income taxes;

d) Depreciation expense on the SIP Projects plant in-service less retirement and removals; and

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(Name of Issuing Utility)

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Sheet 3 of 3 Sheets

e) Adjustment for ad valorem taxes.

SIP Renewal Plan Filing

No later than December 1, 2019, the Company may file a proposal to renew or extend the SIP program with the Commission and Intervener(s). If the Commission accepts the terms of the SIP extension, approval setting the scope of the extended program shall be provided by June 1, 2020. If not approved for extension, SIP Projects shall be completed by March 31, 2021 and the final Quarterly SIP Rate Change will be effective May 1, 2021.

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	(Signature of Officer)		(Title)

Exhibit GLS-3 Atmos Energy Rate Mechanisms
As of June 2015

Line #	Jurisdiction	Comprehensive Formula Rate Making /Annual Rate Review	Capital Investment Lag, months [1]	Comprehensive Rate Case (no set filing frequency) [2]	Capital Investment Lag, months [1]	Infrastructure Replacement Only Tracker: Special Capital Treatment in Annual Review Mechanism	Infrastructure Replacement Only Tracker: Capital Investment Lag, months [1]	Infrastructure Replacement Only Tracker: Stand-alone Rate Treatment	Infrastructure Replacement Only Tracker: Capital Investment Lag, months [1]	Tracker for all Capital Spending: Stand-alone Rate Treatment	Tracker for all Capital Spending: Capital Investment Lag, months [1]
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Kansas (Existing)	N		Y	17			Y (GSRS) [3]	11		
2	Kansas (Proposed)	P	13			P	2.5				
3	Colorado	N		Y	20			P	0		
4	Kentucky	N		Y	0			Y	0		
5	Louisiana - LGS	Y	12			Y	0				
6	Louisiana - Trans LA	Y	12			Y	0				
7	Mississippi	Y	0			P	0				
8	Tennessee	Y [4]	0				0 [4]				
9	Texas - Mid-Tex Cities [6]	Y	11			Y	0				
10	Texas - Mid-Tex-Dallas	Y	14			Y	0				
11	Texas - Mid-Tex (Unincorporated Areas)	N		Y	15			Y	0	Y (GRIP) [5]	11
12	Texas - West Texas [7]	Y	11			Y	0				
13	Texas - West Texas (Unincorporated Areas)	N		Y	15			Y	0	Y (GRIP) [5]	11
14	Texas - W Tx (Amarillo, Lubbock) [8]	N		Y [9]	15			Y	0	Y (GRIP) [5]	11
15	Virginia	N		Y [10]	6			Y	0		

Notes:

Y	Atmos Energy utilizes a specific tariff, rule, or statute in the jurisdiction
N	Atmos Energy has no specific tariff, rule, or statute in the jurisdiction
P	Proposed
1	For purposes of this chart, the number of months between the rate effective period and the respective test period (or evaluation period). Does not consider timing relating to Depreciation Expense
2	These areas are currently dependent on periodic comprehensive rate case filings
3	GSRS limits the increase to $0.40 per residential customer per month
4	All Capital (including Infrastructure Replacement) afforded forward-looking treatment
5	Available by statute, used currently in areas with RRC as primary jurisdiction
6	All cities except City of Dallas
7	All cities except Cities of Amarillo, Lubbock, Dalhart and Channing
8	Also includes Cities of Dalhart and Channing
9	Based upon resolution with the Cities; if appealed to the Railroad Commission, lag could be 21 months
10	May file expedited annual rate adjustment. Includes ability to implement interim rates

Exhibit GLS-4 ARM & SIP Timelines

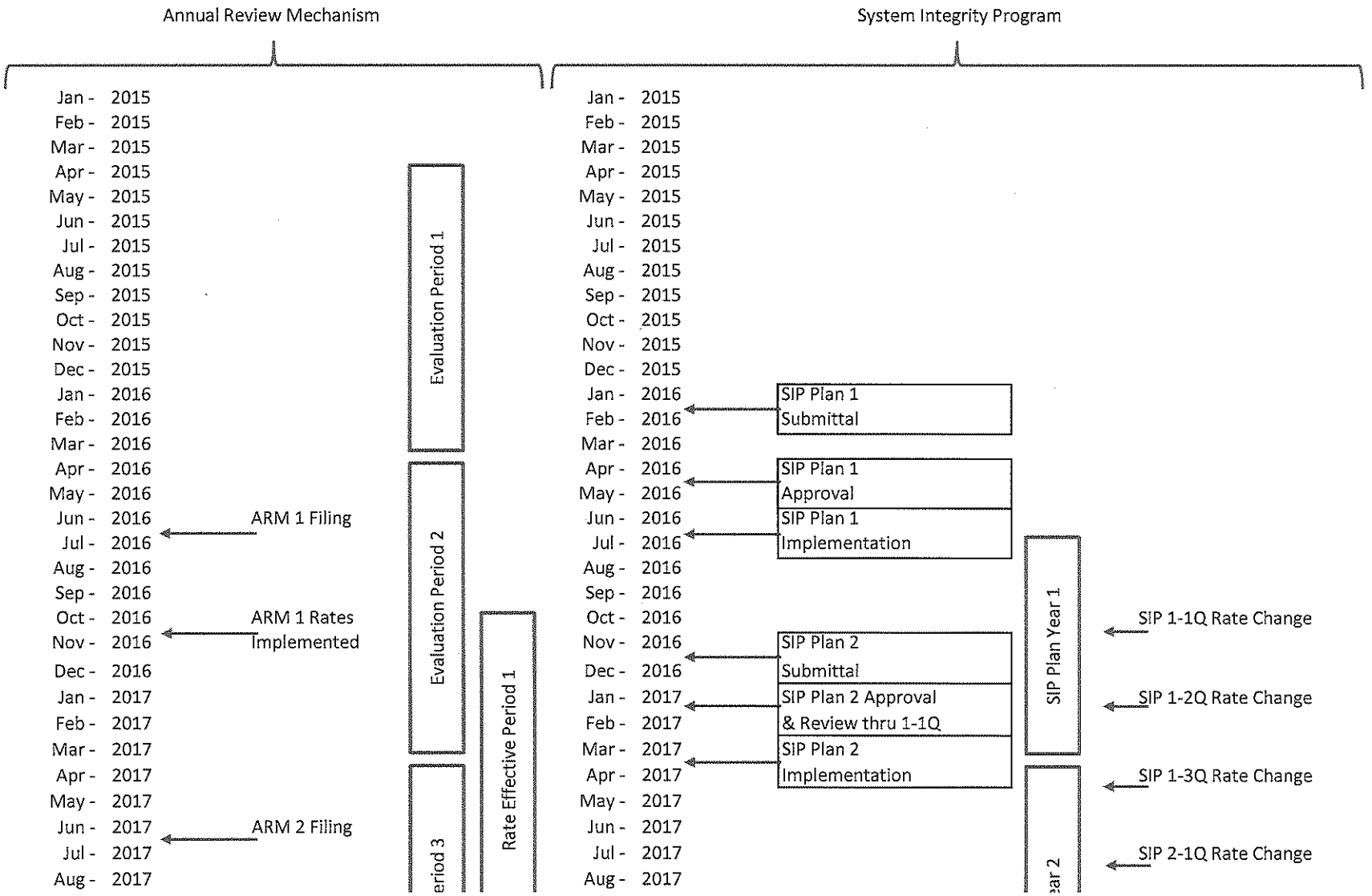


Exhibit GLS-4 ARM & SIP Timelines

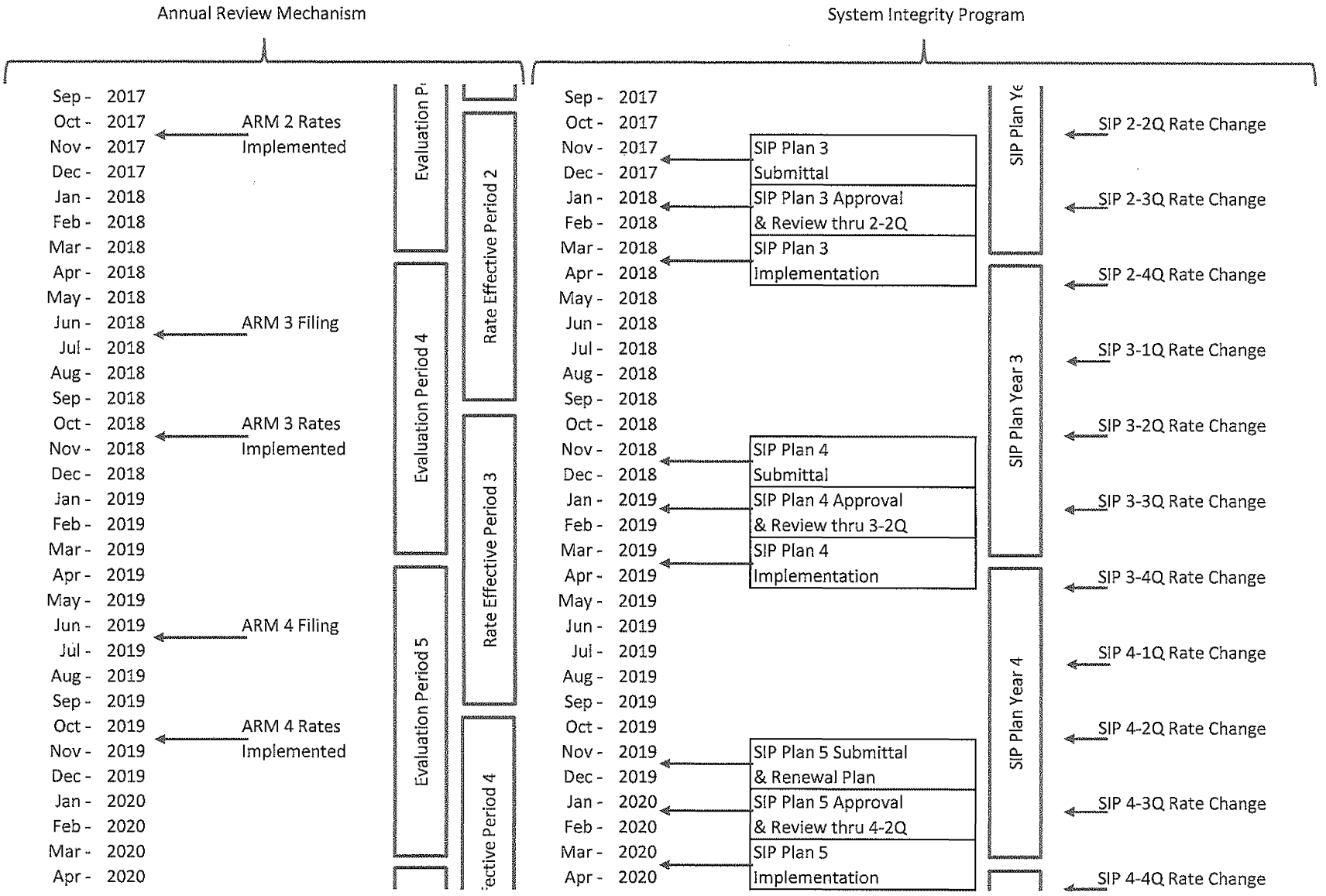
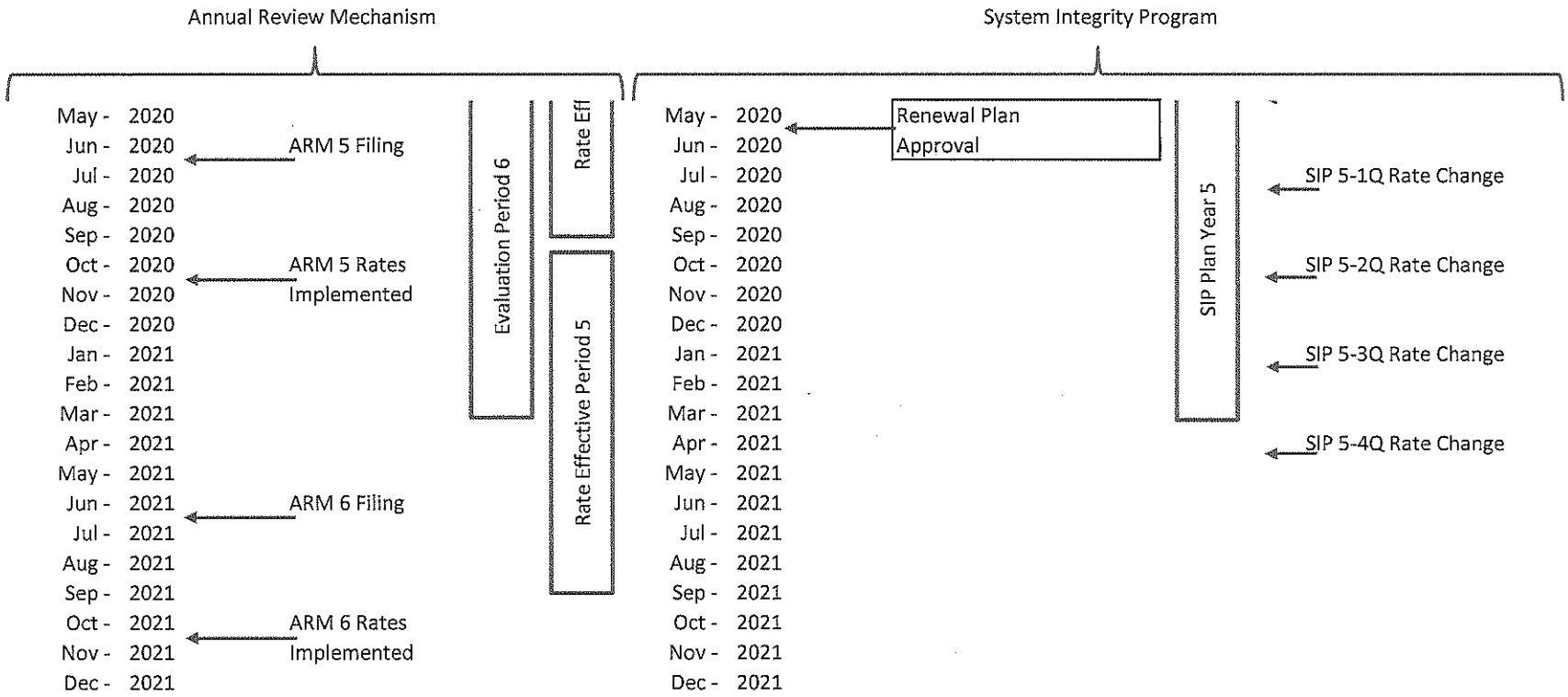


Exhibit GLS-4 ARM & SIP Timelines



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Shari Feist Albrecht, Chair
Jay Scott Emler, Commissioner
Pat Apple, Commissioner

Sam Brownback, Governor

TO: Chair Shari Feist Albrecht
Commissioner Jay Scott Emler
Commissioner Pat Apple

FROM: Leo Haynos, Chief of Energy Operations and Pipeline Safety
Justin Grady, Chief of Accounting and Financial Analysis
Jeff McClanahan, Director of Utilities

DATE: February 2, 2015

SUBJECT: Recommendation to Initiate a General Investigation Regarding the Acceleration of Replacement of Natural Gas Pipelines Constructed of Obsolete Materials Considered to be a Safety Risk

EXECUTIVE SUMMARY:

In the Commission's Order in Docket 14-ATMG-320-RTS, the Commission stated that it would entertain the possibility of roundtable discussions with industry to develop solutions that address the proactive replacement of aging natural gas infrastructure. Staff held a series of meetings with the three investor owned natural gas public utilities that collectively serve 90% of the natural gas customers in Kansas. The goal of the roundtable discussions was the development of proposals to address the aging infrastructure issue. After holding two work sessions with the Commission and incorporating their feedback into the proposals, Staff believes we are able to establish the framework for a viable replacement process that can be uniformly applied to natural gas public utilities in Kansas. Staff recommends opening a General Investigation to receive comments from the affected parties and fully develop the record regarding the efficacy of a pipe replacement program to enhance public safety and the parameters that should be included in a pipe replacement program plan to assure equitable recovery of the investment costs. Such parameters will address the methods used to propose replacement projects for review by the Commission as well as cost recovery mechanisms associated with the projects. In particular, Staff recommends the Commission request comments from the affected parties on the following:

1. Should replacing obsolete infrastructure, funded through some form of non-traditional ratemaking mechanism, be considered to be in the public interest?
2. Does the Commission have the jurisdictional authority to establish alternative rate making methodologies for pipe replacement that go beyond the parameters established under the Gas Safety and Reliability Policy Act?[1]
3. What are the expected benefits to customers, utilities, and the public generally from an accelerated pipe replacement program?

[1] K.S.A 66-2201 et seq.

4. Are there any detriments to customers, utilities, and the public generally from implementing an accelerated pipe replacement program?
5. What parameters should be tracked to demonstrate pipe replacement reduces threats to public safety?
6. Provide comments on Staff's proposed parameters for implementing an obsolete pipe replacement process (see Attachment 1).
7. Attachment 1 also contains Staff's rationale for each of the proposed parameters. Staff recommends the Commission request comments on the rationale used by Staff in describing the parameters in Attachment 1. Respondents should be encouraged to offer alternative concepts/ideas that meet the overall goal of each of Staff's parameters in Attachment 1.

BACKGROUND:

The State of Kansas has 21,800 miles of natural gas distribution piping that is subject to Kansas Pipeline Safety Regulations. Of that amount of pipe, 23% or 5,300 miles[2] are constructed of material that is obsolete or presents a known safety risk. All of the steel obsolete piping was installed before pipeline safety regulations were promulgated in 1970, making the piping in question at least 45 years old. In some cases, the piping can be as much as 100 years old. The majority of the obsolete piping is constructed of steel, and the main safety threat regarding failure of the piping is external corrosion of the pipe wall. The corrosion process is time dependent and becomes a more serious threat as time advances. For a portion of the obsolete piping, corrosion has been slowed by applying cathodic protection (CP). But CP cannot undo the corrosion damage that occurred in the years before it was applied, nor can CP prevent future corrosion. Regular leak surveys and ongoing pipe replacement projects indicate the pipeline systems in Kansas are not in imminent danger of failing. However, as time and corrosion continue, the probability of leaks and subsequent safety risks will increase.

Although Kansas regulations require operators to have unprotected bare steel pipe replacement plans, these plans are based on reacting to the frequency of leakage that occurs on the pipeline. In other words, a series of safety threats (leaks) must be observed before replacing a section of pipe is required. The regulations do not establish the quantity of piping that must be replaced. The amount of pipe to be replaced is left to the operator's discretion.

Since 2008, Kansas natural gas public utilities have been taking advantage of the Gas Safety Reliability Surcharge (GSRS) for recovery of capital investment costs incurred for complying with Pipeline Safety Regulations or for recovery of capital costs that are required by public works projects. Not all pipe replacement programs would be eligible for GSRS rate treatment because they would not be necessarily required by pipeline safety regulations. The GSRS surcharge is recovered from customers in the form of a monthly charge. The GSRS law restricts the amount of recovery from GSRS to a

[2] This estimate includes 4,900 miles of bare steel, 90 miles of cast iron, and 300 miles of obsolete plastic piping that is prone to cracking.

maximum of $0.40 per month per residential customer. It also restricts the time period that the surcharge can be collected to a period of five years. After five years, the utility must have a rate case and place the projects being recovered through GSRS into rate base which effectively zeroes out the surcharge.

ANALYSIS:

Necessity for Acceleration of Infrastructure Replacement in Kansas:

As noted earlier, current surveillance and replacement programs required by Kansas Pipeline Safety Regulations indicate the natural gas pipeline system in Kansas is not in imminent danger of catastrophic failure. However, as pipe ages, failure will be become more frequent, and more frequent failures increase the probability of at least one of the failures being catastrophic in nature. Delaying pipe replacement until a threat to public safety is obvious is not good public policy. A corollary to this fact would be that only performing minimal pipe replacement (to meet regulatory requirements for example) could result in the magnitude of the replacement program being so monumental that replacement in a timely manner is not possible. Attachment 2 provides an example of such a scenario that is ongoing in the state of Pennsylvania at this time.

Kansas' three natural gas public utilities have ongoing replacement programs primarily associated with GSRS. However, the rate of replacement may not be sufficient to stem the threat of leakage from old pipes. Attachments 3 through 5 provide trends related to replacing bare steel service lines, which is an example of a pipe replacement program that is common to all three utilities. The trends indicate that Kansas Gas Service and Black Hills are able to obtain a modest reduction in leak inventory through their replacement programs. Atmos Energy, on the other hand, is seeing an increase in its leak inventory even though 400 service lines are being replaced per year. The increasing leakage trend could be an indication the effects of corrosion are outpacing the replacement plan.

While current replacement programs are making progress, Staff believes accelerating the rate of replacement for all utilities would be in the public interest because it would provide the public with the benefit of achieving these safety goals sooner than a program that simply replaces pipe based on the current leakage rate. It seems equitable to Staff that any alternative rate making treatment which provides a benefit to the utility also should benefit the customer as well by achieving a safer gas delivery system sooner than is being provided by the present replacement programs. However, we recognize that an increased rate of replacement cannot be allowed to displace other safety priorities that may occur. Therefore, any replacement program approved by the Commission should be designed to increase the work being done rather than replace other necessary projects.

Staff recognizes that an accelerated pipe replacement program will be a burden on ratepayers regardless of the method of cost recovery. In order to assure the ratepayer of the necessity and the results of a replacement program, Staff recommends the Commission pre-approve any pipe replacement program. As part of that approval, each program should have an agreed upon set of reporting parameters that can demonstrate replacement acceleration, safety threat reduction, and operating cost reductions in order

to demonstrate to the ratepayers the success of their investments. Such reporting would also allow Staff to monitor the progress and costs of a replacement program.

Alternative Ratemaking Mechanism to Recover Infrastructure Replacement Costs:

The regulatory compact requires utility ratepayers to pay for investments needed to construct, maintain, and operate the utility system. Traditional ratemaking practice in Kansas requires utility operators to file a rate case with the Commission in order to recover operating costs and have an opportunity to earn a return on utility investment. During the period between rate cases, the utility carries the cost of these investments which can negatively affect its earnings. To minimize this effect known as regulatory lag, the utility may be inclined to minimize its investment in replacing infrastructure and only perform the minimum required pipe replacements. This potential disincentive to accelerate infrastructure replacement investments may arguably be contrary to the public interest for at least two reasons:

- If a utility is putting off accelerating the replacement of aging infrastructure, there are important safety benefits to customers and the public generally that are not being realized.
- If a utility's only option to remedy the negative effects of regulatory lag is to file more frequent rate cases, there may be higher costs to ratepayers associated with the utility and Commission costs for filing, processing, and adjudicating the rate case.

There are options available to the Commission to reduce the disincentive of regulatory lag associated with the acceleration of the replacement of infrastructure. Alternative ratemaking mechanisms can be designed to diminish the effects of regulatory lag in one of the two following ways:

- By allowing the utility to recover costs from ratepayers more quickly than traditional rate case timing would support.
- By allowing the utility to defer the carrying costs of additional investments to a regulatory asset account (thereby not impacting earnings) which can be recovered in a future rate case.

Both of these options (discussed in more detail in Attachment 1) allow the utility to accelerate investment in the replacement of aging infrastructure while minimizing the negative financial effects associated with regulatory lag and without the time and expense associated with filing more frequent rate cases.

It should be noted that Staff is not advocating for a total elimination of regulatory lag with these alternative ratemaking mechanisms. Regulatory lag does provide an important incentive to utility companies to control costs, and Staff contends that this incentive shouldn't be totally eliminated, especially if the replacement programs involve aggressive plans for capital deployment.

CONCLUSION AND RECOMMENDATION:

In conclusion, Staff believes the accelerated replacement of obsolete natural gas piping in order to reduce the risk to public safety is in the public interest. Staff recommends the Commission issue an Order opening a General Investigation for the purpose of investigating the following questions:

1. Should replacing obsolete infrastructure, funded through some form of non-traditional ratemaking mechanism, be considered to be in the public interest?
2. Does the Commission have the jurisdictional authority to establish alternative rate making methodologies for pipe replacement that go beyond the parameters established under the Gas Safety and Reliability Policy Act?[3]
3. What are the expected benefits to customers, utilities, and the public generally from an accelerated pipe replacement program?
4. Are there any detriments to customers, utilities, and the public generally from implementing an accelerated pipe replacement program?
5. What parameters should be tracked to demonstrate pipe replacement reduces threats to public safety?
6. Provide comments on each of the eleven parameters proposed by Staff for implementing an obsolete pipe replacement process (see Attachment 1).
7. Attachment 1 also contains Staff's rationale for each of the proposed parameters. Staff recommends the Commission request comments on the rationale used by Staff in describing the eleven parameters in Attachment 1. Respondents should be encouraged to offer alternative concepts/ideas that meet the overall goal of each of Staff's parameters in Attachment 1.

[3] K.S.A 66-2201 et seq.

ATTACHMENT 1

Program Parameters/Qualification for Aging Infrastructure Investments Plans

1. Should initial filings be limited to five year programs on a pilot basis which will be reevaluated every five years? *Staff Comments: An initial five-year program will allow the Commission to evaluate the effectiveness and cost of the program and decide if it is in the public interest to continue. Because this proposal includes an alternative ratemaking mechanism, it is important to limit the length of time the mechanism is effective without a full rate review.*

2. Should filings be limited to a utility-specific program to replace obsolete infrastructure on an expedited basis compared to current pace? *Staff Comments: Accelerated replacement will achieve safety goals sooner and provide the ratepayer with a benefit for the increased cost burden. In addition, it would be inappropriate to afford extraordinary ratemaking treatment to capital expenditures that the utility would have otherwise made on its own accord under traditional ratemaking practices.*

3. For the initial filing, should the proposed programs include a long term plan to eliminate all types of undesirable pipe in the utility's system over a pre-determined time frame (not necessarily five years)? *Staff Comments: Initial filing should provide a roadmap for replacement of all undesirable piping that is in a utility's inventory in order to provide the Commission and the ratepayers with an understanding of magnitude of a program to remove obsolete gas piping from the system.*

4. Should the programs be required to include a prioritization scheme for pipe replacement that reduces threats to pipeline safety? *Staff Comments: An accelerated replacement program should be focused on removing the highest risk piping in the utility's inventory first. The program should also include the rationale as to how the prioritization scheme was derived.*

5. Should the proposed programs be required to result in an increase in overall capital expenditures for the replacement of aging natural gas infrastructure in Kansas? *Staff Comments: The replacement program with an alternative ratemaking mechanism is not intended to provide an alternate method for funding the status quo. It is intended to allow alternative ratemaking treatment for real safety concerns in a proactive manner that is over and above the current way of maintaining the piping system.*

6. Should initial filings be required to include projected yearly replacement levels and capital expenditures (both in aggregate and on a per-unit basis)? *Staff Comments: Regulatory lag provides a utility an important incentive to control costs. Because an alternative ratemaking mechanism diminishes that incentive, Staff recommends the program provide transparency in*

its costs and replacement schedules that can be evaluated by Staff and other interveners and by the Commission.

7. Should the utility be required to file annual compliance filings detailing progress made in the last year, deviation from initial projections, and revisions to remaining plan projections, if applicable? *Staff Comments: Staff recognizes that replacement plans may change because of the dynamics of operating a gas system. This provision is meant to provide the utility the opportunity to explain why goals were or were not met and request revisions to approved operating plan if necessary.*

8. Should a filing requesting an alternate ratemaking mechanism include an agreement from the utility to not file a rate case more often than once every three years? And, if a utility files a rate case more frequently than once every three years, should the utility be required to agree to the following terms: If a rate case is filed after only one year, the utility must agree to forego recovery of rate case expense in rates. If the utility files after two years, the utility must agree to only recover 50% of that expense in rates. *Staff Comments: Because the proposed alternative ratemaking mechanism accompanied by the present surcharge found in GSRS is anticipated to recover a significant proportion of capital costs for a natural gas utility and removes most of the effects of regulatory lag from those costs, Staff recommends a utility taking advantage of this type of program commit to filing a rate case no more frequently than once every three years. If the utility desires to file more frequently than once every three years, Staff recommends the utility agree that shareholders will pay for portions of the expense of the rate case as set out in the above proposal. This ensures that one of the stated benefits of the program (avoided rate case costs) will be realized. Additionally, while the utility will be mostly insulated from regulatory lag for significant capital expenditures under this proposal, this provision ensures that the utility continues to be subject to the beneficial cost containment effects of regulatory lag for the remainder of its operating costs.*

9. Should a utility applying for alternative ratemaking treatment be required to commit to tracking directly identifiable reductions in operating and maintenance expenses? Furthermore, should any reductions in operations and maintenance expenses be used to offset the increased revenue requirements associated with the replacement program? *Staff Comments: In order to lessen the burden on ratepayers associated with accelerating the pace of utility capital investment, Staff proposes the utility be required to track savings in operations and maintenance expense that can be directly attributable to a pipe replacement program. Furthermore, the identified savings should be used to offset the costs of the ongoing replacement program.*

Cost Recovery Options

10. Please provide comments on the viability of Staff's proposal that utilities applying for alternative ratemaking treatment be limited to one of two non-traditional ratemaking methodologies:

A. Deferred Cost recovery option. This method allows the utility to be insulated from the earnings effects of regulatory lag for the qualified capital expenditures between rate cases, without changing customer bills outside of a full rate proceeding. The utility would be allowed to defer depreciation expenses and carrying charges (calculated at the last Commission approved After-Tax Weighted Average Cost of Capital) associated with the qualified capital expenditures into a regulatory asset until the next rate case. The regulatory asset would then be amortized over a time determined reasonable by the Commission in the next rate case, or unitized as part of the Plant in Service and depreciated over the life of the applicable asset during the next rate case. Any tax ramifications associated with recovery of any deferred amounts will be handled in accordance with all applicable IRS Tax Normalization rules as appropriate in that rate case.

B. Yearly Surcharge Option. This option would basically be designed similar to the Environmental Cost Recovery Rider, the GSRS, and other surcharges that are designed to allow recovery of actual, historically incurred costs. The utility would file an annual filing, which after a short review period would allow it to begin recovering a return of (through depreciation expense) and a return on (through pre-tax weighted average cost of capital) invested capital on qualified Plant In Service investments. This surcharge should have a yearly true-up requirement as well.

Customer Benefits of this proposal:

- Inherent benefits of a safer system
- Time between rate cases (rate stability)
- Avoided rate case expenses
- Tracked and reduced O&M expenses saved from not maintaining obsolete infrastructure
- Programmatic replacement usually results in lower per unit costs than piece meal

Company Benefits of this proposal:

- Accelerated rate of replacement of aging and riskier infrastructure
- Less likelihood of higher and unplanned maintenance costs associated with pipe failure
- Substantial reduction in regulatory lag compared to traditional ratemaking paradigm

11. Please provide a synopsis of other alternative ratemaking methodologies that you wish the Commission to consider.

ATTACHMENT 2

Philadelphia natural gas pipe system 'at risk' for tragedy, PUC chief says

By Mike Wereschagin
Monday, Jan. 12, 2015, 11:24 p.m.
Updated 24 hours ago

TRIBLIVE

Almost half of Philadelphia's natural gas distribution system is considered "at risk" for a tragedy, and the 80 years estimated to replace the worst pipelines is too long, the chairman of the state Public Utility Commission said Monday.

The risk the Philadelphia Gas Works system poses to public safety prompted PUC Chairman Robert Powelson to order an "in-depth" review of PGW's integrity and the utility's replacement timeline. The largest municipal-owned system in the nation includes about 1,500 miles of cast iron gas pipes, some of which date to the 1800s, making it one of the oldest and leakiest gas distribution systems in the country, according to federal data.

Philadelphia residents are "threatened by at-risk pipelines and an alarmingly slow replacement schedule," Powelson said Monday in a statement announcing the review. "We will take an in-depth look at PGW and determine what may be done to accelerate this process and avoid tragic accidents, while at the same time being mindful of how much of a burden ratepayers can bear" to fund replacement work.

The state allows gas utilities to increase customers' bills by up to 5 percent to pay for accelerated infrastructure replacement.

Iron and bare, unprotected steel are the pipeline materials most prone to corrosion. They account for most leaks in gas distribution networks across the country, according to the Pipeline and Hazardous Materials Safety Administration.

Columbia Gas of Pennsylvania and Peoples Natural Gas Co., the largest Western Pennsylvania gas utilities, plan to remove the last of their iron and bare steel pipe by 2029 and 2031, respectively, according to filings with the state.

PGW expects to remove the last of the at-risk pipeline in 2100 — the longest timeline of any Pennsylvania gas utility. The state utility commission estimates it costs about $1.4 million to replace a mile of pipeline in Philadelphia.

Pennsylvania likely will deal with this expensive problem for the rest of this century, a Tribune-Review investigative series, "The Invisible Threat," has reported.

Columbia Gas this week will begin a $1.1 million project to replace lines in Pittsburgh's South Side that have been in use since the late 1800s. The project involves replacing more than a mile of wrought iron and bare steel pipeline.

"It's served us well for a long time, but at this point, it's costing more to maintain it than to replace it," said spokeswoman Brynnly Schwartz said.

Columbia's project is part of $144 million the company expects to spend this year replacing underground infrastructure. Since 2007, it's spent $685 million to replace 620 miles of pipeline, the company said.

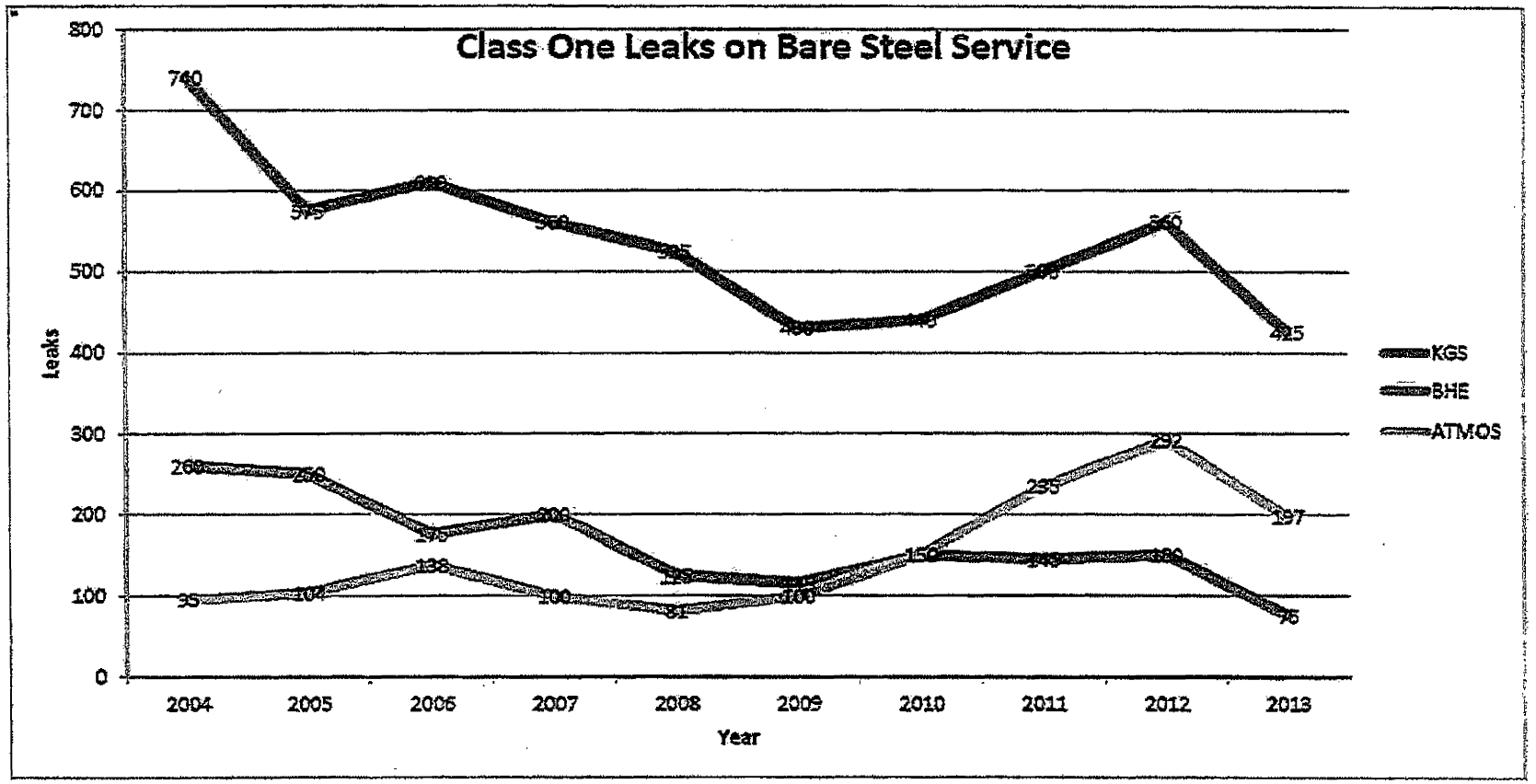
The South Side project will include service and traffic disruptions along Sarah, Jane and East Carson streets, Wrights Way, and 22nd, 24th, 25th and 26th streets. Work will take place on weekdays between 7 a.m. and 5 p.m. until early summer.

"We are working closely with the city of Pittsburgh to ensure inconvenience is minimized. We appreciate the community's patience as this important work is completed," said Nicole Giunta, the company's construction leader.

Accidents involving distribution pipeline — the lines that carry gas from utilities to homes and businesses — killed more than 120 people and caused more than $775 million in damage since 2004, the Trib investigative series found.

ATTACHMENT 3

Class 1 Leak Count In Kansas



12/2/2014

Kansas Corporation Commission

Exhibit GLS-5

ATTACHMENT 4

Inventory of Bare Steel Service Lines in Kansas

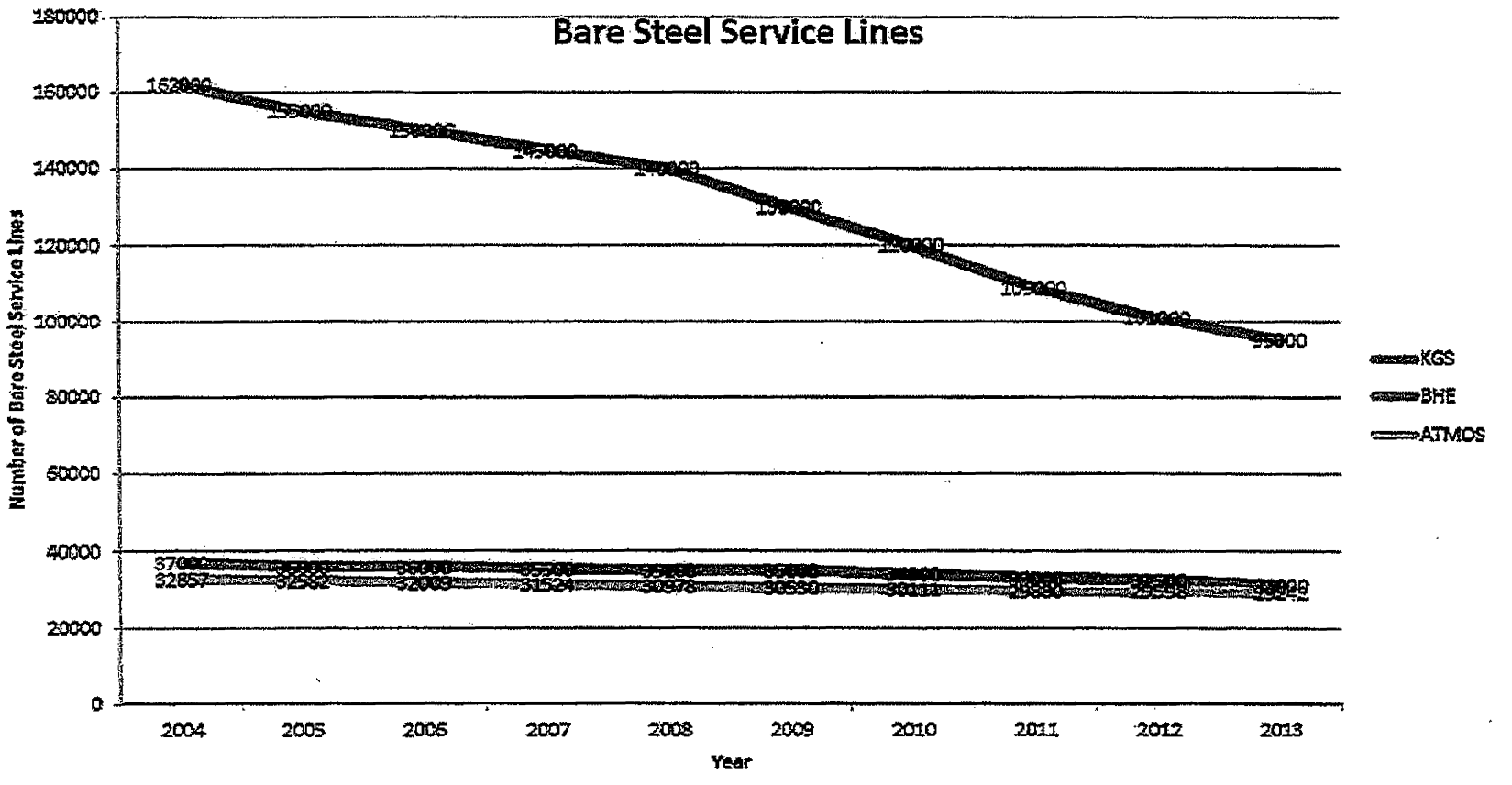


Exhibit GLS-5

Comments on Graph Analysis

- KGS
  - Class 1 leak count declining at rate of 25 leaks per year.
  - Bare Steel Service Line inventory declining at rate of 10,000 per year.
- BHE
  - Class 1 leak count declining at rate of 15 leaks per year.
  - Bare Steel Service Line inventory declining at rate of 660 per year.
- Atmos
  - Class 1 leak count *increasing* at rate of 11-25 leaks per year.
  - Bare Steel Service Line inventory declining at rate of 402 per year.

IN RE: DOCKET NO. **15-GIMG-343-GIG** DATE MAR 12 2015

PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES

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KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
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OVERLAND PARK, KS 66213-2634

ORDER MAILED MAR 13 2015

The Docket Room hereby certified that on this ___ day of _____ , 20____, it caused a true and correct copy of the attached ORDER to be deposited in the United States Mail, postage prepaid, and addressed to the above persons.

IN RE: DOCKET NO. **15-GIMG-343-GIG** DATE MAR 1 2 2015

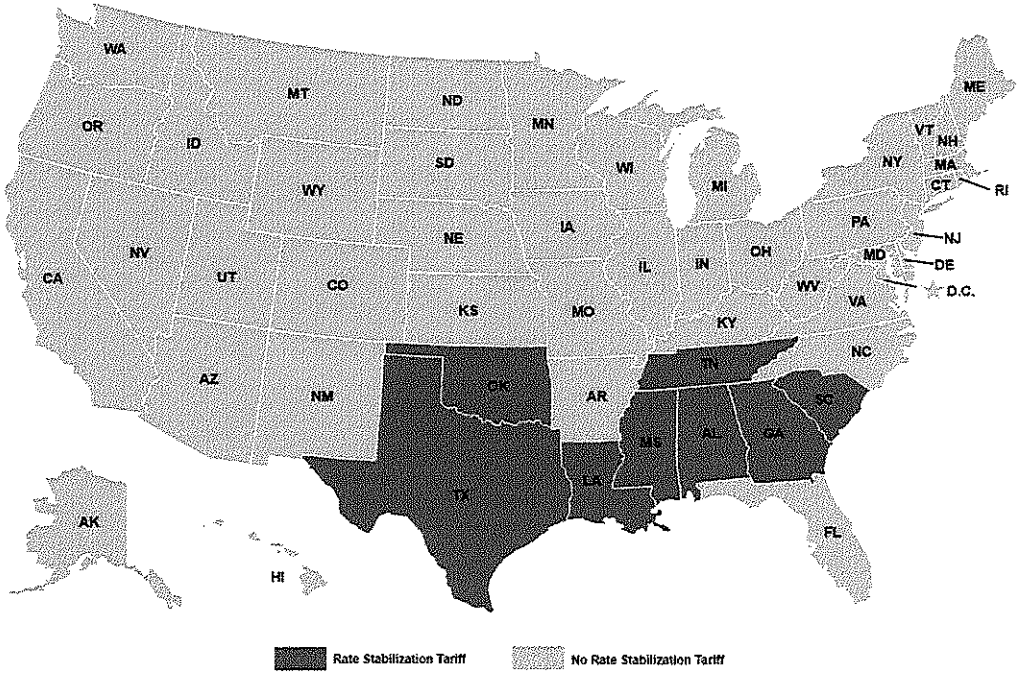
PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
WALKER HENDRIX, DIR, REG LAW KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC. 7421 W 129TH ST OVERLAND PARK, KS 66213-2634		

ORDER MAILED MAR 1 3 2015

The Docket Room hereby certified that on this ___ day of _____ , 20____, it caused a true and correct copy of the attached ORDER to be deposited in the United States Mail, postage prepaid, and addressed to the above persons.

Current Status of Rate Stabilization Tariffs



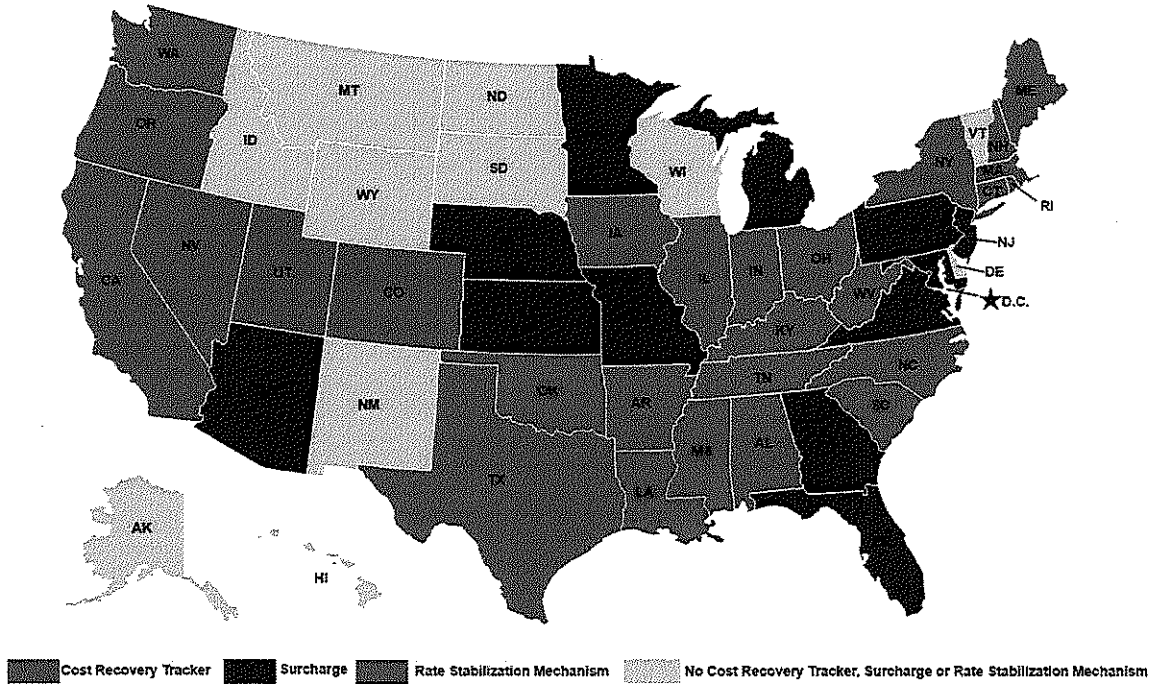
American Gas Association Report "Innovative Rates, Non-Volumetric Rates, and Tracking Mechanisms: Current List", dated May 2015, slides 10-11.

Current Status of Rate Stabilization Tariffs

Approved

1. AL – Alabama Gas
2. AL – Mobile Gas
3. GA – Liberty Utilities
4. LA – Atmos Energy
5. LA – CenterPoint Energy
6. LA – Entergy
7. MS – Atmos Energy
8. MS – CenterPoint Energy
9. OK – CenterPoint Energy
10. OK – Oklahoma Natural Gas
11. SC – Piedmont Natural Gas
12. SC – South Carolina Electric and Gas
13. TN – Atmos Energy
14. TX – Atmos Energy

States with Accelerated Infrastructure Cost Recovery



American Gas Association Report "Innovative Rates, Non-Volumetric Rates, and Tracking Mechanisms: Current List", dated May 2015 slides 2-4.

Utilities with Full Infrastructure Cost Recovery Mechanisms

1. AL – Alabama Gas Company
2. AL – Mobile Gas Service
3. AR – Arkansas Oklahoma Gas
4. AR – SourceGas
5. AR – CenterPoint Energy
6. CA – San Diego Gas and Electric
7. CA – Southern California Gas
8. CA – Southwest Gas
9. CO – Public Service Co. of Colorado
10. CT – Connecticut Natural Gas
11. DC – Washington Gas
12. FL – Chesapeake Utilities
13. FL – Florida Public Utilities Company
14. FL – TECO Peoples Gas
15. GA – Atlanta Gas Light
16. GA – Liberty Utilities
17. IL – Ameren Illinois
18. IL – NICOR Gas
19. IL – Peoples Gas
20. IN – Vectren North Indiana Gas
21. IN – Vectren South SIGECO
22. IN – NIPSCO
23. KS – Atmos Energy
24. KS – Black Hills
25. KS – Kansas Gas Service
26. KY – Atmos Energy
27. KY – Columbia Gas of Kentucky
28. KY – Delta Natural Gas
29. KY – Duke Energy Kentucky
30. LA – CenterPoint Energy
31. LA – Entergy Gulf States
32. MA – Columbia Gas of Massachusetts
33. MA – National Grid Massachusetts
34. MA – Liberty Utilities
35. MD – Baltimore Gas and Electric
36. MD – Columbia Gas of Maryland
37. MD – Washington Gas
38. MI – Consumers Energy
39. MI – DTE Gas Company
40. MI – SEMCO Energy
41. MO – Ameren Missouri
42. MO – Liberty Utilities
43. MO – Laclede Gas
44. MO – Missouri Gas Energy
45. MS – CenterPoint Energy
46. NC – Piedmont Natural Gas
47. NH – Liberty Utilities
48. NJ – New Jersey Natural
49. NJ – Elizabethtown Gas
50. NJ – Public Service Electric and Gas
51. NJ – South Jersey Gas
52. NV – Southwest Gas
53. OH – Columbia Gas of Ohio
54. OH – Dominion East Ohio
55. OH – Duke Energy
56. OH – Vectren Ohio
57. OK – CenterPoint Energy
58. OR – Avista Corp.
59. OR – NW Natural
60. PA – Columbia Gas of Pennsylvania
61. PA – Equitable Gas
62. PA – Peoples Gas Company
63. PA – Peoples TWP
64. PA – UGI Central Penn Gas
65. PA – UGI Penn Natural Gas
66. PA – PECO
67. PA – Philadelphia Gas Works
68. RI – National Grid Narragansett Gas
69. SC – Piedmont Natural Gas
70. SC – South Carolina Electric and Gas
71. TN – Atmos Energy
72. TN – Piedmont Natural Gas
73. TX – Atmos Energy
74. TX – CenterPoint Energy
75. TX – Texas Gas Service
76. UT – Questar Gas
77. VA – Atmos Energy
78. VA – Columbia Gas of Virginia
79. VA – Virginia Natural Gas
80. VA – Washington Gas
81. WA – Avista Corporation
82. WA – Puget Sound Energy, Inc.
83. WA – Cascade Natural Gas Company
84. WA – Northwest Natural Gas Company

Limited and Pending Infrastructure Mechanisms

LIMITED – 3 States

1. AZ – Southwest Gas
2. ME – Northern Utilities
3. NY – Consolidated Edison
4. NY – Corning Natural Gas
5. NY – National Grid NYC
6. NY – National Grid Long Island
7. NY – National Grid Niagara Mohawk

PENDING – 5 States

1. IL – Ameren Illinois (authorized by legislation)
2. MN – Xcel Energy (authorized by legislation)
3. NY – Central Hudson Gas and Electric
4. WV – Mountaineer Gas
5. NY – All utilities

GENERIC RULINGS OR LEGISLATION – 3 States

1. Iowa – All utilities may apply
2. Nebraska – All utilities may apply
3. West Virginia – All utilities may apply