

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Atmos)
Energy to Amend its Purchase Gas Adjustment)
(PGA) Schedule to Add a Demand Charge) Docket No. 14-ATMG-230-TAR
Savings and Pipeline Bypass Savings)
Component to the PGA)

DIRECT TESTIMONY OF KENNETH M. MALTER

1 **Q. STATE YOUR NAME, EMPLOYER, JOB TITLE AND BUSINESS ADDRESS.**

2 A. My name is Kenneth M. Malter. I am Vice President, Gas Supply and Services, for Atmos
3 Energy ("Atmos"). My business address is 1100 Poydras Street, Suite 3400, New Orleans,
4 Louisiana 70139.

5 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL**
6 **EXPERIENCE?**

7 A. I have a degree in finance from Louisiana State University and an MBA from Tulane
8 University. I have worked in the gas industry since 1990. I worked for a production
9 company, Louisiana Land and Exploration, and held various commercial position from 1990
10 to 1998. I began working in the utilities business on gas supply in 1998 for Citizens Utilities
11 and began working with Atmos in 2001 with its acquisition of Citizens Utilities' Louisiana
12 properties. I am currently the Vice President - Gas Supply and Services for Atmos.

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

14 A. My testimony is in support of the Company's Amended Application for approval of its
15 changes to the Purchased Gas Adjustment Schedule to add a Demand Charge Savings

1 Component and Pipeline Bypass Savings Component to the PGA. Specifically, my testimony
2 explains how revenues generated by the Demand Charge Savings and the Pipeline Bypass
3 Savings Components of the PGA would be used by Atmos to fund qualified capital projects.
4 I am also sponsoring the amended PGA schedule attached to the Amended Application.

5 **Q. IN ITS ORIGINAL APPLICATION, ATMOS PROPOSED TO SHARE THE DEMAND**
6 **CHARGE SAVINGS AND PIPELINE BYPASS SAVINGS EQUALLY BETWEEN**
7 **THE SHAREHOLDERS AND THE CUSTOMERS. IN ITS AMENDED**
8 **APPLICATION, ATMOS PROPOSES TO INVEST INCREMENTAL CAPITAL IN**
9 **ITS DISTRIBUTION SYSTEM EQUAL TO THE SAVINGS GENERATED BY THE**
10 **DEMAND CHARGE AND PIPELINE BYPASS COMPONENTS CAN YOU EXPLAIN**
11 **WHY ATMOS HAS MADE THIS CHANGE?**

12 A. Yes. Based upon a meeting between Atmos and the Commission Staff on February 21, 2014,
13 Staff made the suggestion that instead of sharing the savings equally between the shareholders
14 and the customers, which is what the utility does with respect to capacity release revenues, the
15 utility would invest 100% of the savings in certain capital projects. Atmos and the
16 Commission Staff discussed the types of capital projects that might qualify for funding, such
17 as the construction and installation of mains and distribution facilities to under-served areas,
18 or capital projects that could reduce the utility's gas supply costs. Per our discussions with
19 Commission Staff these savings would be included as investments to rate base and recoverable
20 by Atmos through the normal rate case process. As the investment takes place and the savings
21 are spent, at that time those dollar amounts would become a permanent part of Atmos rate

1 base. This applies even if the PBR program is not extended. Any dollars that are invested
2 remain in rate base. The Commission Staff asked Atmos to come up with some specific
3 examples of projects that might qualify for funding using the demand charge savings and
4 pipeline bypass savings. Atmos provided qualifying projects to the Commission Staff and
5 Atmos has decided to move forward with Staff's suggestion by amending that portion of the
6 Application and PGA Schedule to reflect the Commission Staff's idea as to how to use any
7 demand charge savings and pipeline bypass savings.

8 **Q. EXPLAIN HOW THE PROPOSED SAVINGS WOULD BE RECOGNIZED BY THE**
9 **COMPANY.**

10 A. The Company will record the demand charge savings and pipeline bypass savings paid by the
11 customer into a deferred balance sheet account. As qualified projects are approved by the
12 Commission, the investments are made by the Company, and the project is placed into service,
13 an entry will be made to transfer the appropriate amount of the deferred balance into an
14 acquisition adjustment account which will then be amortized over a fifteen year period.

15 **Q. CAN YOU SHARE WITH THE COMMISSION THE SPECIFIC EXAMPLES ATMOS**
16 **PROVIDED TO THE COMMISSION STAFF?**

17 A. Yes. Attached to my testimony as Exhibit KMM-1, is a copy of the Memorandum Atmos
18 prepared and provided to the Commission Staff.

19 The Memorandum identifies specific examples of capital projects relating to under
20 served areas within Atmos' Kansas certificated service territory: (1) three all electric
21 subdivisions in Johnson County, Kansas; and (2) areas in southwest Kansas where Atmos

1 could extend its existing distribution system to provide natural gas service to irrigation
2 customers who do not currently have access to processed natural gas supplies to fuel their
3 engines that pump water to irrigate their farms.

4 The Memorandum also identified two projects that could result in gas supply cost
5 savings to Atmos' customers: (1) capital improvements to the Atmos owned Liberty Gas
6 Storage Field, and (2) a capital project to acquire natural gas supplies in southeast Kansas
7 from a local natural gas producer.

8 Although Atmos has completed only a preliminary analysis on these projects, and
9 additional work would need to be performed before Atmos would submit these projects to the
10 Commission for approval, Atmos sees considerable merit in Staff's suggestion to use the
11 savings generated by demand charge and pipeline bypass components to fund qualified capital
12 projects. Atmos' Kansas customers will receive the benefit from these projects and the
13 Company receives the benefit from the return on equity on the capital placed in service and
14 into the rate base of the Company.

15 **Q. WHAT WOULD BE A QUALIFIED CAPITAL PROJECT?**

16 A. Atmos has identified three general categories of capital projects that would be considered
17 Qualified Capital Projects:

18 (1) capital projects to provide natural gas service to under-served areas in and/or
19 around Atmos' certificated territory;

20 (2) capital projects that would result in gas supply cost savings; and

21 (3) other capital projects approved by the Commission.

1 Since any project would have to be approved by the Commission, the Commission would have
2 the final say in whether a project was a Qualified Capital Project. However, the general
3 categories provide some guidance as to those types of projects that would qualify.

4 **Q. WOULD ATMOS BE REQUIRED TO OBTAIN COMMISSION APPROVAL OF ANY**
5 **CAPITAL PROJECT IT INTENDED TO FUND USING REVENUES GENERATED**
6 **FROM THE CAPACITY DEMAND SAVINGS AND/OR PIPELINE BYPASS**
7 **SAVINGS BEFORE PROCEEDING WITH THAT CAPITAL PROJECT?**

8 A. Yes. As set forth in the proposed amended PGA schedule, Atmos would be required to file
9 an application with the Commission to obtain approval of each capital project it intended to
10 fund using savings generated by the capacity demand and/or pipeline bypass components.

11 **Q. EXPLAIN HOW THE PROPOSED CHANGES TO THE PGA TARIFF WOULD**
12 **WORK.**

13 A. Ms. Rowe has already explained that portion of the changes to the PGA tariff that would add
14 capacity demand savings and pipeline bypass savings to the capacity release savings to Atmos'
15 PGA Schedule. What would be different under the Staff's suggestion that has been
16 incorporated in Atmos' Amended Application is that instead of the savings being shared
17 equally between the shareholders and the customers, which is what is currently done with
18 capacity release revenues, 100% of the savings generated by the two components would be
19 placed by Atmos in a deferred account to be used to fund qualified capital projects approved
20 by the Commission.

21 **Q. DOES THE ADDITION OF DEMAND CHARGE SAVINGS AND PIPELINE BYPASS**

1 **SAVINGS COMPONENTS AFFECT THE CAPACITY RELEASE PROGRAM AND**
2 **HOW IT IS CURRENTLY BEING HANDLED?**

3 A. No the capacity release program remains the same as previously approved by the Commission
4 and this new program has no effect and is considered separate.

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

6 A. Yes.

VERIFICATION OF KENNETH M. MALTER


STATE OF LOUISIANA)
)ss:
PARRISH OF ORLEANS)

I, Kenneth M. Malter, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing Direct Testimony of Kenneth M. Malter; that I have read the testimony and am familiar with its contents; and that the facts set forth therein are true and correct.



Kenneth M. Malter

SUBSCRIBED AND SWORN to before me this 24th day of April, 2014.



Notary Public

Appointment/Commission Expires:

JOHN F. SHREVES
Notary Public, State of Louisiana
La. Bar Roll No. 17139
My Commission Is Issued For Life.

MEMORANDUM

TO: Kansas Corporation Commission (Commission) Staff (Staff) and Citizens Utility Ratepayers' Board (CURB)

FROM: Atmos Energy (Atmos)

RE: Examples of Projects That Would Qualify for Funding Generated by Pipeline Capacity Savings
Docket No. 14-ATMG-230-TAR

DATE: March 26, 2014

Based upon Atmos' meeting with the Staff on February 21, 2014, the Staff asked Atmos to identify a few projects that might qualify for funding using revenue generated by pipeline capacity savings under the amended application Atmos intends on filing with the Commission in the above referenced docket. Atmos has identified the following projects:

1. Construction and Installation of Mains and Distribution Facilities to All Electric Subdivisions

Atmos has identified three specific all electric subdivisions which Atmos could construct and install mains and distributions using revenues generated by pipeline capacity savings so the customers living in those subdivisions would have access to natural gas distribution service. Those subdivisions are located in Johnson County, Kansas.

Exhibit A to this Memorandum identifies the municipality where the subdivisions are located, the name of each subdivision, the number of houses located in each subdivision, the main extension footage necessary to provide natural gas service to each subdivision, and the estimated total cost for the extension.

All of these subdivisions were built as all electric subdivisions when developed. They are all in the 15 20 year range. A few propane tanks have been spotted in these neighborhoods. It is not economical now for either the subdivision home owners' association or Atmos to construct and install the mains and distribution facilities to serve these all electric subdivisions under Atmos' line extension policy. This limits the customers' access to alternative fuel sources. By using funds generated by pipeline capacity savings under the proposed tariff, Atmos could construct and install mains and distribution facilities to each of these subdivisions.

2. Construction and Installation of Mains and Distribution Facilities to Serve North Ulysses Irrigation Customers

Atmos has identified one specific project with respect to extending its existing distribution system in Southwest Kansas to serve new irrigation customers located northwest of Ulysses, Kansas. The proposed project would cover the following area: (T27S,R39W)-(T27S,R40W)-(T28S,R38W)-(T28S,R39W)-(T28SR40W)-(T30S,R40W). Atmos estimates that there are approximately 78 irrigation engines, which currently do not have access to process natural gas from a natural gas distribution system in this area that could obtain service from Atmos.

Attached to this Memorandum as Exhibit B is an estimate of the costs to extend Atmos' existing distribution system to serve the above mentioned area. By using funds generated by pipeline capacity savings under the proposed tariff, Atmos could construct the extension of its distribution system so irrigation customers in the area could obtain natural gas distribution service.

Additional preliminary work still needs to be performed by Atmos with respect to this project, including assessment of potential load which could be served from the extension of the distribution system.

3. Improvements to Atmos' Liberty Gas Storage Field

Atmos has identified a project to make capital improvements to its Liberty Gas Storage Field, which would allow a majority of the Coffeyville, Kansas load to be served from the west and allow all or a large portion of the natural gas stored in the Atmos Liberty Gas Storage Field to be moved back onto Southern Star for use by Atmos' customers served off of Southern Star. The improvements would also increase the reliability of the gas storage field.

The estimated cost of the capital improvements is between \$2 and \$5 million. The work would include improvements to the storage field's compressor station, tap on Southern Star and an upgrade to the Compton line to the East Coffeyville meter.

The ability to move all or a large portion of the natural gas stored in the Atmos Liberty Gas Storage Field back into Southern Star and delivered to Atmos' customers served off of Southern Star could significantly reduce the amount of natural gas Atmos is required to purchase on the daily spot market during the coldest days of the year. For example, during this past winter, the daily spot market price for natural gas on Southern Star reached \$31.265 per MMBtu. By making the improvements to the Liberty Gas Storage Field using funds generated by pipeline capacity savings under the proposed tariff, and allowing Atmos' customers greater access to storage gas, which is purchased during the non winter months and is less expensive than the daily spot price for natural gas during the coldest days in the winter, Atmos' cost of natural gas to its customers can be reduced to

benefit all of Atmos' Kansas customers.

4. Acquisition of Natural Gas Supplies From Local Natural Gas Producer in Southeast Kansas

Atmos has identified a project to interconnect and purchase natural gas from a reputable Kansas natural gas producer, Colt Energy, who operates natural gas wells located in Southeast Kansas. The cost of the project, which would include the cost of installing approximately 2 miles of main and a meter set is approximately \$1 to \$2 million. The amount of natural gas is estimated at 500 to 1500 Mcf per day. This natural gas is currently being sold directly into Southern Star to a marketing company. The majority of the natural gas would be purchased by Atmos in the non winter months and delivered into Atmos' Liberty Storage Field to be used to serve Atmos' customers during the winter months. This local supply of natural gas would offset supplies currently be purchased by Atmos on Southern Star. Atmos would expect the cost of natural gas purchased from Colt Energy would be significantly less than natural gas purchased on Southern Star because Atmos would be avoiding production area demand and commodity charges on Southern Star.

By using funds generated by pipeline capacity savings under the proposed tariff to fund this project, Atmos' cost of natural gas to its customers can be reduced to benefit all of Atmos' Kansas customers.

Additional preliminary work still needs to be completed by Atmos with respect to this project, including determining estimated remaining natural gas reserves that would be covered by the gas supply agreement with Colt Energy, the terms of the gas supply agreement, and what if any contribution Colt would be willing to make to the necessary improvements.

Atmos would be happy to answer any questions the Staff or CURB has relating to these projects and could set up a conference call in the next couple of weeks to discuss.

Atmos plans to file its amended application and supplemental testimony by March 31, 2014, and will include a statement that it has agreed to extend the 240 day statutory deadline by 90 days.

Since these projects are all preliminary in nature, Atmos would request that the information provided be designated as confidential pursuant to the Protective Order issued in this docket.