





**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

<b>IN THE MATTER OF THE APPLICATION</b>	)	<b>Docket No.</b>
<b>OF ATMOS ENERGY CORPORATION</b>	)	
<b>FOR REVIEW AND ADJUSTMENT OF ITS</b>	)	
<b>NATURAL GAS RATES</b>	)	<b>16-ATMG-____-RTS</b>

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**DIRECT TESTIMONY OF**

**GARY W. GREGORY**

**FOR ATMOS ENERGY CORPORATION**

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1                    **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

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

3    **A.    My name is Gary W. Gregory. My business address is 1555 Blake Street, Suite 400,**  
4            **Denver, Colorado 80202.**

5    **Q.    BY WHOM ARE YOU EMPLOYED?**

6    **A.    I am the President of the Colorado/Kansas Division of Atmos Energy Corporation**  
7            **(Atmos Energy” or the “Company”).**

8    **Q.    PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES AS DIVISION**  
9            **PRESIDENT FOR ATMOS ENERGY AND YOUR PROFESSIONAL AND**  
10           **EDUCATIONAL BACKGROUND.**

11   **A.    In my current role, I have overall responsibility for the safe and reliable provision of**  
12           **gas service for the customers and communities the Company serves in Colorado and**  
13           **Kansas. To that end, I lead a dedicated team of approximately 282 employees**  
14           **throughout both states with duties spanning operations, construction, engineering,**

1 compliance, measurement, safety, information technology, human resources,  
2 marketing, public affairs, finance and rates. I am ultimately responsible for the service  
3 provided by the Company in Kansas and Colorado and for ensuring the long-term  
4 financial viability of the Colorado/Kansas Division's operations.

5 I graduated with a bachelor's degree in civil engineering from the University of  
6 Houston in 1983. I am a Registered Professional Engineer in the State of Texas. I have  
7 been in utility operations management since 1984. I joined Atmos Energy in 1995,  
8 working in the Company's West Texas Division. In 2000, I was named Vice President  
9 of Technical Services for the Colorado/Kansas Division. In 2004, I returned to the  
10 West Texas Division as President with responsibility for 349 employees, 307,480  
11 customers, 76 communities and 15,125 miles of pipe. During this time I also served as  
12 Chairman of the Atmos Energy Utility Operations Council, a deliberative body within  
13 the Company charged with addressing operational matters, including safety  
14 performance and federal and state regulatory compliance. In 2012, I returned to  
15 Colorado to serve as President of the Colorado/Kansas Division. I now oversee the  
16 provision of natural gas service to 244,602 customers in 170 communities and 6,798  
17 miles of pipe over two states.

18 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

19 **A.** Yes. I have been a member of the American Society of Civil Engineers for 25 years.  
20 Since 2012, I have also been a member of the Southern Gas Association Executive  
21 Council.

22 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

23 **A.** No, I have not.

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

2 **A.** My testimony has five primary purposes: (1) to provide an overview of Atmos Energy,  
3 including the Company's Corporate Vision as it relates to safety and the Company's  
4 Kansas operations; (2) to provide an overview of the Company's application for  
5 adjustment of natural gas rates, including the amount of the proposed increase, the  
6 impact to customer bills and the principal factors requiring the Company to request an  
7 adjustment at this time; (3) to discuss recent federal and state regulatory developments  
8 related to infrastructure integrity that have impacted the way natural gas utilities  
9 monitor and manage the safety of distribution systems and the importance of a  
10 supportive regulatory climate to a natural gas utility's ability to proactively invest in its  
11 distribution system; (4) to introduce the Company's proposed Annual Review  
12 Mechanism ("ARM") and System Integrity Program ("SIP") and (5) to introduce the  
13 Company's other witnesses providing support for the proposed rate adjustment and  
14 tariff changes.

15

16 **II. OVERVIEW OF ATMOS ENERGY**

17 **Q. PLEASE BRIEFLY DESCRIBE ATMOS ENERGY.**

18 **A.** Atmos Energy is one of the largest pure natural gas distribution companies in the  
19 United States. The Company delivers natural gas to approximately 3.2 million  
20 residential, commercial, industrial and public-authority customers in eight states.  
21 Atmos Energy has six unincorporated gas utility operating divisions headquartered in  
22 Lubbock, Texas (West Texas division); Dallas, Texas (Mid-Tex division); Denver,  
23 Colorado (Colorado/Kansas division); Baton Rouge, Louisiana (Louisiana division);

1 Jackson, Mississippi (Mississippi division); and Franklin, Tennessee and Owensboro,  
2 Kentucky (Kentucky/Mid-States division). In addition, Atmos Energy has an  
3 operating division, Atmos Pipeline – Texas, headquartered in Dallas, Texas which  
4 consists of a regulated intrastate pipeline that operates only within Texas.

5 **Q. WHAT IS ATMOS ENERGY'S CORPORATE VISION?**

6 **A.** Our Corporate Vision statement establishes our objective to be the safest provider of  
7 natural gas possible, to provide exceptional customer service, to be a great employer  
8 and to produce superior financial results.

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

11 **A.** In Kansas, Atmos Energy serves approximately 131,000 customers in 107  
12 communities located in 33 counties. The communities are spread throughout the state.  
13 In the Kansas City metropolitan area, the Company serves Olathe, Bonner Springs,  
14 DeSoto and portions of Kansas City, Overland Park, Shawnee, Lenexa and Lawrence.  
15 In Southeast Kansas, the Company serves Independence, Coffeyville and Yates Center.  
16 In Central Kansas, the Company serves Council Grove and Herington. In South  
17 Central and Northwest Kansas, the Company serves Anthony and South Haven, near  
18 Wichita, and Ness City. In Southwest Kansas, the Company serves Ulysses and  
19 Johnson City.

20 Atmos Energy's active Kansas customer base consists of approximately  
21 120,500 residential customers, 9,900 commercial customers, 67 industrial customers,  
22 278 irrigation customers and 430 transportation customers. The Company's utility  
23 plant includes 4,753 miles of transmission, distribution and service lines.

1 **III. OVERVIEW OF ATMOS ENERGY'S APPLICATION FOR ADJUSTMENT OF**  
2 **NATURAL GAS RATES**

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

5 **A.** Atmos Energy is requesting an overall revenue increase of approximately \$6.6 million  
6 which is the increase in base rates plus the rate case expense rider. The increase  
7 includes moving or rebasing the \$388,000 currently collected through the Company's  
8 Gas System Reliability Surcharge Rider ("GSR") and \$78,000 of the Company's Ad  
9 Valorem Tax Surcharge into base rates and setting the two surcharges to zero.

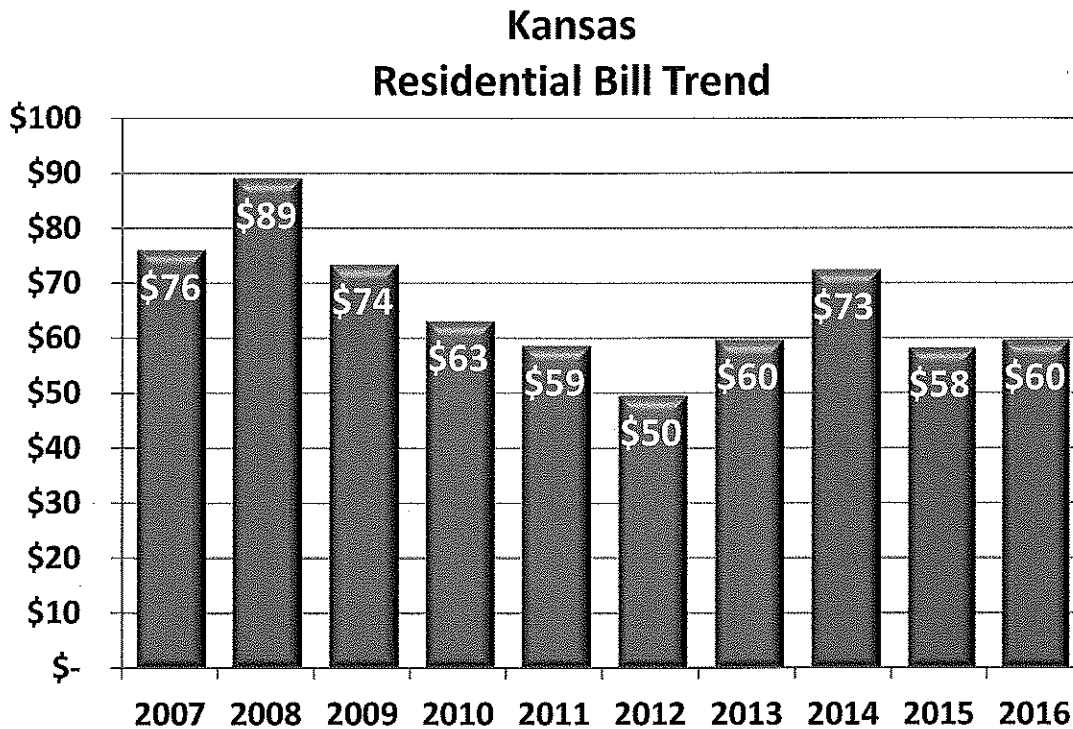
10 **Q. HAS THE COMPANY EXAMINED THE IMPACT OF THE PROPOSED**  
11 **RATE INCREASE ON CUSTOMER BILLS?**

12 **A.** Yes. In order to collect the proposed revenue increase, Atmos Energy proposes to  
13 increase the Residential monthly Customer Charge by \$3.78 while the Residential  
14 Consumption Charge would remain unchanged. Atmos Energy proposes to increase  
15 the Commercial monthly Customer Charge by \$9.74 while the Commercial  
16 Consumption Charge would remain unchanged.

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

20 **A.** Table GWG-1 below illustrates how the average customer bill after the proposed  
21 increase would compare to historical average customer bills.  
22  
23

1           **TABLE GWG-1 – Comparison of Average Monthly Customer Bills 2007-2016**



2

3   **Q.    WHAT DOES TABLE GWG-1 SHOW?**

4   **A.**   The table shows that if the Company’s requested increase is granted without  
5           adjustment or reduction, the average Kansas monthly customer bill will continue to be  
6           significantly lower than the peak experienced during 2008. In this way, natural gas  
7           utility service remains affordable, both on an historical basis and in comparison to price  
8           changes in other household “necessities” over the past eight years.

9   **Q.    WITH CONSIDERATION TO THE HISTORICAL AVERAGE CUSTOMER**  
10   **BILL, WOULD GRANTING THE PROPOSED INCREASE BE CONSISTENT**  
11   **WITH THE COMMISSION’S DUTY TO BALANCE THE INTERESTS OF**  
12   **BOTH THE CUSTOMER AND THE UTILITY?**



1 A. Yes. The average customer bill over the past eight years is \$68. Thus, when balancing  
2 the impact to customers receiving natural gas service with the impact to the Company,  
3 granting the proposed rate increase would provide the Company with an opportunity to  
4 earn a reasonable return on its investment in new facilities that are already in service  
5 without harming the customer -- all at historically reasonable rates.

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

8 A. The rates currently in effect in Kansas do not allow us to recover our cost of providing  
9 service to our Kansas customers or to earn a reasonable return on our invested capital.  
10 The principal factors driving this filing are: (1) the Company's increase in capital  
11 investment to improve system safety (\$4.2 million), (2) the critical need for the  
12 Company to improve its allowed return on its invested capital in order to effectively  
13 access the capital markets on reasonable terms, to facilitate continuing direct capital  
14 investment in the Kansas pipeline system (\$2.6 million), and (3) the increase in O&M  
15 expense to the Company (\$1.3 million) attributable to labor related expenses and  
16 amounts removed in the last settlement. While these increases are partially offset by  
17 increased normalized revenue at present rates (\$1.7 million) and lower taxes other than  
18 income (\$0.900 million), the proposed net increase is needed to allow Atmos Energy to  
19 recover its cost of providing service to Kansas customers and to sustain its current pipe  
20 replacement activities within the State.

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

23 A. The Company's most recent rate proceeding, in Docket No. 14-ATMG-320-RTS ("320

1 Docket”), was filed on January 9, 2014 and was based upon a 12-month test year  
2 ending September 30, 2013. The current rates went into effect in September 2014.

3 **Q. WHY IS ATMOS ENERGY FILING A CASE LESS THAN ONE YEAR AFTER**  
4 **RATES HAVE BEEN IN EFFECT?**

5 **A.** The Company’s rate base has increased by \$28.4 million since the conclusion of the  
6 last rate case, primarily as a result of investment in ongoing system safety and integrity  
7 projects. While a small amount of this investment, \$2.7 million, is currently being  
8 recovered through a GSRS surcharge, the majority of the increased rate base is not  
9 currently included in our Kansas rates.

10 **Q. HAS THE COMMISSION PREVIOUSLY EXPRESSED CONCERN ABOUT**  
11 **THE FREQUENCY OF ATMOS ENERGY’S RATE CASES IN KANSAS?**

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

17 **Q. WHAT IS ATMOS ENERGY’S POSITION ON THIS ISSUE?**

18 **A.** We understand the concern underlying the Commission’s statements. However,  
19 Atmos Energy would hasten to add that the need to file recurring rate cases is primarily  
20 the product of Atmos Energy’s continuing capital investment program in Kansas and  
21 the fact that the allowed rates of return on invested capital granted by the Commission  
22 in the last several rate cases have been very low in comparison to other local  
23 distribution companies in the United States. These circumstances have made it

1 especially difficult for the Company to invest any significant amount of new capital in  
2 Kansas without almost immediately seeking rate relief, especially given the regulatory  
3 lag built into the Kansas general rate case process.

4 Atmos Energy recognizes that general rate cases are resource-intensive for both  
5 the Commission and the Company and are ultimately costly to customers. Atmos  
6 Energy believes that a more reasonable alternative to the requirement of filing repeated  
7 general rate cases within short intervals is the Company's proposed ARM mechanism.  
8 The ARM is an annual rate update mechanism which will reduce the need for repeated  
9 general rate case proceedings, thereby reducing customer expense and regulatory  
10 fatigue while ensuring just and reasonable rates that balance the interests of customers  
11 and the Company. The ARM will address the Commission's concerns about rate case  
12 expenses while balancing the interests of minimizing these costs to customers and  
13 meeting the Company's minimum financial requirements.

14 **Q. WOULD IT BE POSSIBLE FOR ATMOS ENERGY TO EXTEND THE TIME**  
15 **BETWEEN RATE CASES BY SIMPLY OPERATING AT LOWER COST?**

16 **A.** Under the current regulatory construct, it would not. Atmos Energy is proud of its  
17 record of managing O&M expense and capital investment while maximizing the  
18 effectiveness of both. Operating Atmos Energy's Kansas distribution system while  
19 decreasing O&M expense and investing less capital in the system would simply not be  
20 prudent or sustainable. For purposes of comparison, it is significant that the  
21 Company's O&M per customer in 2014 (\$160) was lower than both Kansas Gas  
22 Service (\$244) and Black Hills (\$263) over the same time period. As discussed at  
23 length in the 320 Docket, the Company's approach to infrastructure replacement,

1 which is largely driven by compliance with federal safety requirements, is being  
2 constrained by the lack of an alternative ratemaking mechanism that allows for the  
3 timely recovery of the cost of this investment.

4 **Q. DO OTHER UTILITIES IN KANSAS FILE GENERAL RATE CASES AS**  
5 **OFTEN AS ATMOS ENERGY?**

6 **A.** Over the past 10 years, other similarly situated Kansas utilities have filed general rate  
7 cases more often than Atmos Energy. Between May of 2005 and August of 2015,  
8 Westar and Kansas City Power & Light have each filed seven rate cases while Atmos  
9 Energy has only filed five rate cases over the same period. Kansas Gas Service and  
10 Black Hills have each filed one rate case during this time frame, and have been able to  
11 recover a significant portion of their respective investments through the GSRS.  
12 However, Atmos Energy's recent infrastructure needs have and will continue to far  
13 outpace the GSRS cap of \$0.40 per month per customer. The cap limits the  
14 Company's ability to recover capital investment through GSRS, which makes the  
15 mechanism only minimally effective in reducing the frequency of general rate case  
16 filings.

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

19 **A.** No. Atmos Energy is not earning a reasonable return under current rates. Atmos  
20 Energy's actual return on investment based upon the information contained in this rate  
21 application is 5.73%. Atmos Energy is requesting Commission approval to increase  
22 rates to allow it a reasonable opportunity to earn an overall return on its Kansas  
23 operations of 8.48%.

1 Q. HOW DOES THE 5.73% COMPARE TO WHAT THE COMMISSION  
2 AUTHORIZED IN SEPTEMBER OF 2014?

3 A. The Company was given an opportunity to earn a return on investment of 7.75%.

4

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

8 Q. IN RECENT YEARS, WHAT HAS BEEN THE MOST SIGNIFICANT  
9 CHANGE IN THE WAY NATURAL GAS UTILITIES MONITOR AND  
10 MANAGE NATURAL GAS DISTRIBUTION SYSTEMS?

11 A. The most significant change has been the natural gas utilities' shift in response to  
12 federal and state regulatory initiatives toward proactively identifying, assessing,  
13 evaluating and prioritizing risks to the integrity of distribution systems. Prompted by  
14 fatal explosions caused by natural gas pipeline failures in Allentown, Pennsylvania and  
15 San Bruno, California, United States Secretary of Transportation Ray LaHood, issued a  
16 Call to Action on March 28, 2011 seeking to engage state regulators, technical experts,  
17 and pipeline operators in identifying pipeline risks and repairing, rehabilitating and  
18 replacing the highest risk infrastructure. Additionally, the Call to Action called on  
19 pipeline operators and owners to evaluate the condition of their pipelines and quickly  
20 repair or replace sections in poor condition. Company witness John McDill, Atmos  
21 Energy's Vice President of Pipeline Safety, has attached a copy of the Call to Action to  
22 his direct testimony as Exhibit JSM-4. Company witness John McDill also describes  
23 the federal and state regulations governing pipeline safety; Atmos Energy's  
24 federally-mandated Distribution Integrity Management Program ("DIMP"); Atmos

1 Energy's prior requests for approval of investments in the integrity of the Company's  
2 system; and explains why, from a policy perspective, accelerated recovery of integrity  
3 investment is in the public interest.

4 **Q. HAVE STATE REGULATORS AND UTILITIES RESPONDED TO**  
5 **SECRETARY LAHOOD'S CALL TO ACTION?**

6 **A.** Yes. Since the issuance of Secretary LaHood's Call to Action, twenty-eight states  
7 have approved programs to address aging infrastructure. In 2009, only eleven states  
8 had alternative rate mechanisms related to infrastructure recovery, according to the  
9 American Gas Association. As of June 2015, the number of states with these kinds of  
10 mechanisms has grown to 38 including the District of Columbia, as shown in Company  
11 witness Gary Smith's direct testimony Exhibit GLS-7. While Georgia and Texas had  
12 infrastructure replacement programs in place prior to 2010, the regulatory commissions  
13 in both states later approved important changes that permitted natural gas utilities to  
14 accelerate the pace of replacing aging infrastructure.

15 **Q. SINCE 2010, HAVE KANSAS UTILITIES MADE ANY PROPOSALS TO**  
16 **ADDRESS AGING INFRASTRUCTURE?**

17 **A.** Yes. Kansas Gas Service has requested and received authority from the Commission  
18 to expand capital investment that qualifies for GSRS recovery. In addition, in 2012,  
19 Kansas Gas Service requested but failed to receive approval for a cast iron replacement  
20 program (Docket No. 12-KGSG-721-TAR). Likewise, Atmos Energy and Black Hills  
21 each included alternative ratemaking proposals in their most recent rate cases which  
22 did not receive Commission approval. However, on March 12, 2015, the Commission  
23 opened a general investigation in Docket No. 15-GIMG-343-GIG ("343 Docket")

1 regarding accelerated infrastructure replacement in Kansas and on June 18, 2015 the  
2 Commission determined that it has jurisdictional authority to establish an alternative  
3 ratemaking mechanism for accelerated replacement of natural gas pipelines  
4 constructed of obsolete materials considered to be a safety risk (Ordering Paragraph  
5 A).

6 **Q. DOES THE COMPANY'S SIP PROPOSAL OVERLAP WITH THE SUBJECT**  
7 **MATTER OF THE 343 DOCKET?**

8 **A.** Yes. The SIP mechanism proposed in this docket is a formula rate mechanism designed  
9 to support and facilitate increased and accelerated efforts to ensure the continued  
10 integrity, safety and reliability of Atmos Energy's Kansas distribution system in  
11 compliance with federal regulations. Atmos Energy believes that the SIP and the 343  
12 Docket overlap since the Company is making a proposal in this case for an alternative  
13 ratemaking mechanism for accelerated replacement of natural gas pipelines  
14 constructed of obsolete materials considered to be a safety risk. While the 343 Docket  
15 has not yet had a procedural schedule established, the Company believes that the issue  
16 of obsolete material replacement is of paramount importance and should not be delayed  
17 while the 343 Docket proceeds. Our filing also provides an opportunity for the  
18 Commission to consider a mechanism within the contemplation of the 343 Docket  
19 within a specific factual context. Therefore, the Company has included the proposed  
20 SIP in its filing in this case.

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

1 A. Yes. For reasons related to a natural gas utility's creditworthiness to bondholders, that  
2 lend capital to fund system integrity projects and a multi-jurisdictional natural gas  
3 utility's ability to deploy capital to a particular jurisdiction, the regulatory climate is  
4 vitally important to a natural gas utility's ability to proactively invest in its distribution  
5 system. Company witness Richard Thomas discusses in greater detail how the  
6 regulatory treatment the Company receives in its jurisdictions affects its credit ratings  
7 and its ability to effectively access capital.

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

11 A. Since 2010, Atmos Energy has been able to expand its infrastructure investment  
12 through various processes developed through rulemaking proceedings or  
13 Company-specific dockets in each of the eight states in which the Company operates  
14 with the exception of Colorado and Kansas. In Texas and Louisiana, the Company is  
15 able to defer infrastructure investment costs until recovery is achieved through our  
16 annual formula rate proceeding. In Mississippi, the Company has been able to elevate  
17 capital spending through our annual formula ratemaking tariff. In Tennessee, the  
18 Company recently received approval (effective June 1, 2015) to implement an annual  
19 ratemaking mechanism which treats all capital on a forward looking basis, including,  
20 infrastructure replacement. In Kentucky and Virginia, the Company has specific  
21 infrastructure surcharges that address obsolete infrastructure.

22 **Q. DOES ATMOS ENERGY CURRENTLY HAVE ANY PROPOSALS PENDING**  
23 **OR AVAILABLE TO RECOVER INFRASTRUCTURE INVESTMENT**



1           **OUTSIDE OF A TRADITIONAL RATE CASE IN KANSAS OR COLORADO?**

2    **A.**    Yes. In Colorado, the Company recently asked for a program similar to our programs  
3           in Kentucky and Virginia. In Kansas, the Company currently has the ability to recover  
4           only \$.40 per month per customer through the GSRS surcharge. That amount is not  
5           sufficient to offset the costs associated with current system improvements being made  
6           by Atmos Energy.

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

9    **A.**    No, Atmos Energy's pipeline system in Kansas is not in imminent danger of failure.  
10           However, as pipe ages the risk of failure becomes greater. Prolonging the replacement  
11           of undesirable pipe increases the chance of a catastrophic failure. The Company does  
12           not believe that delaying pipe replacement until there is a threat to public safety is  
13           sound public policy.

14   **Q.    IS ATMOS ENERGY'S KANSAS PIPELINE SYSTEM SAFE?**

15   **A.**    Currently, yes. Atmos Energy is proud that our system has proven to be safe and  
16           reliable. While no one can guarantee there will never be an incident, Atmos Energy  
17           works diligently to monitor and inspect the Company's system, identify risks and  
18           implement remedies in compliance with both industry best practices and federal safety  
19           requirements. Our requests in this docket, including the proposed ARM and SIP  
20           mechanisms, and an adequate allowed rate of return, are completely aligned and  
21           consistent with the goal of continued pipeline safety and reliability.

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

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

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

8 A. Yes. The Commission's support of a program for accelerated infrastructure  
9 replacement would be a major factor supporting Atmos Energy's ability to continue to  
10 provide safe and reliable service to the citizens of Kansas. I would specifically note  
11 that each of the Company's existing replacement programs in each of its other  
12 jurisdictions have been specifically tailored to meet the legal and other regulatory  
13 requirements of that jurisdiction. The Company recognizes the importance of being  
14 on the same page as the regulator and is committed to working cooperatively to  
15 similarly satisfy Kansas-specific legal and regulatory requirements.

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

19 A. In addition to approving a mechanism that will facilitate the Company's efforts to  
20 replace aging infrastructure, the most impactful support would be to allow Atmos  
21 Energy to protect its financial soundness as it undertakes these investments. In  
22 evaluating a utility's risk profile and assessing its credit quality, equity analysts and  
23 ratings agencies closely scrutinize the regulatory environments of the jurisdictions in

1 which the utility operates. In a May 18, 2015 research report entitled Assessing U.S.  
2 Investor-Owned Utility Regulatory Environments, ratings agency Standard & Poor's  
3 stated, "We regard jurisdictions that require regulators to protect utilities' financial  
4 soundness and have transparent policies and procedures as the most credit-supportive.  
5 We ascribe higher risk in jurisdictions where policies and procedures support financial  
6 integrity, but where inconsistency can selectively arise."

7 Further, in Standard and Poor's most recent report on Atmos Energy, the  
8 ratings agency specifically noted the Company's "timely cost recovery to support  
9 credit profile". The report further noted that "Many, but not all of [Atmos Energy's]  
10 jurisdictions provide for the use of . . . accelerated capital recovery mechanisms, which  
11 lend support to cash flow stability". The Standard & Poor's report on Atmos Energy  
12 is attached as Exhibit RMT-1 to Company Witness Richard Thomas' testimony.

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

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

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

21 **A.** I can only conclude that utilities are operating in an environment that has changed  
22 drastically since 2010 and that the support of regulators is critical to meeting the  
23 industry's infrastructure challenges. As I noted earlier, twenty-eight states have now



1 and the various alternative rate mechanisms the Company currently utilizes in other  
2 states it serves. Mr. Smith will also explain why these mechanisms, are effective in  
3 allowing utilities to extend the time necessary for filing rate cases which is in the best  
4 interest of the customer, the Commission and the Company. Finally, Mr. Smith  
5 explains how the proposed SIP will align with certain of Commission Staff's  
6 recommendations in 15-GIMG-343-GIG.

7 \* Mr. Richard Thomas, Director of Capital Markets (Shared Services), will  
8 provide testimony regarding the impact return on equity decisions have on the cost of  
9 financing the business.

10 \* Ms. Barbara Myers, Manager Rates & Regulatory Affairs (Shared Services),  
11 will sponsor testimony regarding Revenue Requirement, Books and Records, the  
12 Company's Cost Allocation Manual ("CAM"), Rate Base and Rate Base Adjustments,  
13 and Depreciation Expense.

14 \* Mr. Jared Geiger, Colorado-Kansas Division Senior Rate Analyst, will sponsor  
15 testimony related to Billing Determinants.

16 \* Ms. Laura Becker, Senior Rate Analyst (Shared Services), will sponsor  
17 Operations and Maintenance ("O&M") Adjustments.

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

20 \* Ms. Ann Bulkley, Vice President with Concentric Energy Advisors, Inc., will  
21 sponsor Return on Equity testimony and capital structure.

22 \* Mr. Dane Watson, Partner of Alliance Consulting Group, provides testimony  
23 regarding the Company's proposed new depreciation rates for Shared Services and the

1 Colorado/Kansas division assets.

2

3

**VI. CONCLUSION & ALTERNATIVE REQUEST**

4 **Q. DO YOU BELIEVE THAT THE COMPANY'S PROPOSED RATES AND**  
5 **ARM/SIP MECHANISMS WILL BE JUST AND REASONABLE?**

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

8 **Q. IF THE COMMISSION DOES NOT APPROVE THE COMPANY'S REQUEST**  
9 **FOR AN ARM AND SIP MECHANISM, DO YOU HAVE ANY**  
10 **ALTERNATIVE REQUESTS?**

11 **A.** Yes. If the Commission does not approve our ARM/SIP mechanism requests, then the  
12 Company respectfully asks that an abbreviated filing be permitted no later than 12  
13 months following the issuance of the order in this rate case.

14 **Q. HOW IMPORTANT IS THIS DOCKET TO ATMOS ENERGY?**

15 **A.** It is very important not just for Atmos Energy but also for the Commission and our  
16 Kansas customers. If Atmos Energy is unable to achieve a regulatory outcome in this  
17 docket that is more in line with industry norms and the prevailing  
18 requirements/emphasis on pipeline safety, then the long-term reliability and safety of  
19 our system within the State of Kansas will be put at risk.

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

21 **A.** Yes, it does.

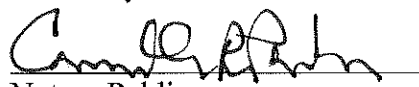
VERIFICATION

STATE OF COLORADO     )  
  )  
COUNTY OF DENVER     )

Gary W. Gregory, being duly sworn upon his oath, deposes and states that he is President of Atmos Energy Corporation's Colorado-Kansas Division; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information and belief.

  
Gary W. Gregory

Subscribed and sworn before me this 21<sup>st</sup> day of July, 2015.

  
Notary Public

My appointment expires: 11/18/13

CAMILLE R. PARKER  
NOTARY PUBLIC  
STATE OF COLORADO  
NOTARY ID # 20084045424  
MY COMMISSION EXPIRES NOVEMBER 18, 2013