

1 Affairs for the Company's Kentucky/Mid-States operations, where I was
2 responsible for rates and regulatory affairs, as well as for directing the marketing
3 plans and strategies for natural gas utility markets in that division.

4 I have also served on numerous corporate-wide committees, and am a
5 past-chair of Atmos Energy's Utility Marketing Council, a group responsible for
6 corporate wide market development policies. I have been active in numerous civic
7 and community organizations and associations relating to the natural gas industry.

8 I have served as chairman of the Utilization Technology Development,
9 NFP Corporation and as chair of the Strategic Marketing Committee for the
10 American Gas Association.

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

14 **Q. HAVE YOU EVER SUBMITTED TESTIMONY BEFORE THE KANSAS**
15 **CORPORATION COMMISSION?**

16 A. Yes. I was a witness for the Company in 08-ATMG-280-RTS.

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

19 A. Yes, I have testified in dockets involving Atmos Energy before the Kentucky
20 Public Service Commission ("KPSC"), the Georgia Public Service Commission
21 ("GPSC"), the Missouri Public Service Commission ("MPSC"), the Tennessee
22 Regulatory Authority ("TRA") and the Railroad Commission of Texas ("RCT").

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III. SUMMARY OF TESTIMONY

Q. WHAT SUBJECTS ARE COVERED BY YOUR DIRECT TESTIMONY IN THIS CASE?

A. My testimony has three primary purposes: (1) to support and describe the methods used to normalize Atmos Energy’s revenues and volumes as they relate to the test period in this case; (2) to support the proposed rates in this proceeding; and (3) to introduce and support the Company’s proposed Customer Rate Stabilization (“CRS”) mechanism.

IV. BILLING DETERMINANTS STUDY

Q. WHAT ARE BILLING DETERMINANTS?

A. Billing determinants are units of service to which the Company’s distribution rates are applied. Specifically, these units include natural gas volumes sold or transported, customer counts and miscellaneous other revenues for non-recurring customer service transactions.

Q. WHAT IS THE PURPOSE OF THIS STUDY?

A. The billing determinants study provides the data and calculations necessary to adjust volumes delivered to reflect normal weather conditions, and to account for other known and measurable adjustments including, but not limited to, annualizing changes in usage patterns by industrial customers. The calculations are shown in Section 17 of the Company’s rate case application. The total of the adjustments for normal weather and other customer volume changes is reflected in adjustment IS-14 in Section 3A of the filing. In this docket, the Company has

1 elected to perform the calculations in the billing determinants study consistent
2 with recently approved methodologies for Atmos Energy in Kansas.

3 **Q. PLEASE DESCRIBE THE CALCULATIONS REFLECTED IN SECTION**
4 **17 OF THE REVENUE REQUIREMENTS MODEL.**

5 A. Columns (d) and (e) reflect actual, per books bill counts and billed volumes by
6 tariff service for the test year in this docket, the 12-month period ended
7 September 30, 2011.

8 Columns (f) and (g) reflect known and measurable adjustments for larger
9 volume sales customers and transportation service customers.

10 Column (h) shows the adjustments necessary for tariff sales volumes to
11 reflect “normal” weather for the period.

12 Column (m) computes the revenue at present rates, applying current
13 monthly facilities charges to the adjusted bill counts and the current commodity
14 rate to the adjusted, normalized volumes for each tariff service.

15 **Q. PLEASE DESCRIBE FURTHER THE ADJUSTMENTS TO LARGE**
16 **VOLUME SALES AND TRANSPORTATION SERVICES.**

17 A. Workpaper 17-4 shows the detail of these adjustments. These adjustments are
18 based on a review of larger customer volume data and discussion/confirmation
19 with local marketing representatives. The adjustments were warranted to both
20 remove non-recurring volumes for businesses no longer in operation and to
21 annualize expected volumes for new businesses and schools added for part of the
22 test year.

1 **Q. PLEASE DESCRIBE HOW ACTUAL SALES VOLUMES WERE**
2 **WEATHER NORMALIZED?**

3 A. Workpaper 17-2 shows the detail of these adjustments. The Company utilizes the
4 Weather Normalization Adjustment (WNA) information submitted to
5 Commission Staff for the months of October 2010 through May 2011 and for
6 September 2011 in columns A-N of the Workpaper 17-2 series. The same
7 methodology was extended to June 2011 – August 2011 to arrive at the full test
8 period adjusted volume. Workpaper 17-2, Column N takes the dollar amount
9 computed and reported to Commission Staff and converts the dollar amount back
10 into a volumetric amount. These volumetric amounts are then accumulated and
11 summarized on Workpaper 17-2 and reflected in column (o) in Section 17 of the
12 Company's rate case application.

13 **Q. HOW DID THE COMPANY DETERMINE WHAT NOAA WEATHER**
14 **STATIONS TO USE?**

15 A. The weather points utilized in the billing determinants study are the same stations
16 utilized in Docket No. 10-ATMG-495-RTS.

17 **Q. DID THE COMPANY HAVE TO SUBSTITUTE ANY WEATHER DATA**
18 **DUE TO UNAVAILABILITY FROM NOAA?**

19 A. Yes. The weather data, as downloaded from NOAA on November 15, 2011 was
20 incomplete, therefore some degree day information had to be substituted based on
21 the closest available weather station.

22 **Q. SHOULD THE COMPANY MAKE AN ADJUSTMENT RELATED TO AD**
23 **VALOREM TAX SURCHARGE REVENUE?**

1 A. For purposes of determining revenue at present rates, and subsequently the overall
2 revenue increase sought by the Company no adjustment needs to be made to per
3 books Ad Valorem Surcharge revenue. However, in the development of rates, the
4 per books amount of Ad Valorem Surcharge revenue must be eliminated since the
5 revenue is subject to annual reconciliation and comparison with previous years
6 collections.

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V. PROPOSED RATES

9 **Q. PLEASE DESCRIBE HOW THE COMPANY DESIGNED RATES IN THIS**
10 **PROCEEDING.**

11 A. I utilized the normalized billing determinants, as included in Section 17, and
12 referenced the Class Cost of Service Study prepared by Company witness Jim
13 Paul to develop the rates proposed in this proceeding.

14 **Q. WHAT WERE YOUR GOALS FOR DESIGNING RATES?**

15 A. The primary goal of designing rates in this case is to balance the fixed and
16 variable elements in our distribution rates to reflect the underlying cost
17 characteristics of our service and establish rates for each class that recover the
18 appropriate contribution to our overall revenue requirement.

19 **Q. WHAT ARE THE PROPOSED RATES?**

20 A. The Company proposes to move the Company's residential facilities charge from
21 \$15.50 to \$19.00 and the commercial/public authority facilities charge from
22 \$37.00 to \$44.00. A complete set of rates are shown in Section 17 of the
23 Company's rate case application and in Exhibit GLS-1 attached to my testimony.

1 **Q. HOW DO THESE RATES ACCOMPLISH THE GOAL OF BALANCING**
2 **FIXED AND VARIABLE CHARGES TO REFLECT THE UNDERLYING**
3 **COST CHARACTERISTICS?**

4 A. The majority of a natural gas utilities costs are fixed and unaffected by the
5 volumes sold or transported. Under the existing tariff rates the Company is
6 recovering only about 56% of its revenue requirement through facilities charges.
7 The Company's proposed rates will continue to recover 56% of the revenue
8 requirements through facilities charges.

9 **Q. HOW DOES THE PROPOSED RECOVERY OF 56% OF REVENUE**
10 **REQUIREMENTS THROUGH FACILITY CHARGES COMPARE TO**
11 **OTHER COMPANIES?**

12 A. I understand that in Black Hills Energy's latest gas rate case, their customer
13 facility charge as a percentage of revenue requirement was approximately 65%.
14 Black Hills Energy's monthly residential facility charge is currently \$16.

15 **Q. WHY IS \$19 THE CORRECT LEVEL FOR THE MONTHLY**
16 **RESIDENTIAL FACILITY CHARGE?**

17 A. I believe that the proposed monthly facilities charge will retain the appropriate,
18 current balance of cost recovery through fixed monthly charges versus
19 volumetric charges.

20 **Q. DO THE RATES YOU PROPOSE ACCOMPLISH THE GOAL OF**
21 **RECOVERING THE APPROPRIATE REVENUE FROM EACH CLASS?**

1 A. Yes. As shown in the Class Cost of Service model (Schedule 14; page 1 of 14,
2 line 24), each class reasonably contributes to the overall requested return on
3 investment of 8.78%.

4 **Q. ARE THE PROPOSED RATES REFLECTED IN THE TARIFFS FILED**
5 **IN THIS DOCKET?**

6 A. Yes. The Company has included a copy of Schedule IV of our tariffs with the
7 proposed rates reflected on the appropriate sheets.

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9 **VI. PROPOSED CUSTOMER RATE STABILIZATION TARIFF**

10 **Q. PLEASE EXPLAIN THE OBJECTIVE OF THE PROPOSED CUSTOMER**
11 **RATE STABILIZATION MECHANISM.**

12 A. First of all, we propose this future mechanism because we believe it provides
13 greater transparency on the Company's financial performance and increases
14 regulatory efficiency and effectiveness.

15 The Customer Rate Stabilization ("CRS") mechanism would, in essence,
16 provide assurance to the customer, Commission, the Citizens' Utility Ratepayer
17 Board ("CURB") and the Company that the rates in place are appropriate, or that
18 those rates would be decreased or increased to the correct amount. This provides
19 assurance that the customer only pays the most current and appropriate rate. We
20 propose that the CRS mechanism would begin with a filing by October 1, 2013, to
21 review past earnings and then current revenue requirements and adjust rates as
22 warranted. This mechanism would provide a structure for regular, consistent and
23 financially transparent rate review that would be conducted at a very low cost.

1 **Q. WHY DOES THE COMPANY BELIEVE THE CRS MECHANISM IS**
2 **NECESSARY?**

3 A. We believe the CRS mechanism will provide benefits to the customer by avoiding
4 the costly and resource-intensive process to review adjustments through the
5 traditional rate case process replacing it instead with a simple, straightforward and
6 financially transparent process that would ensure that the customer pays only the
7 appropriate rate. Atmos Energy has been filing comprehensive rate cases in
8 Kansas on a cycle of approximately two years. An annual rate review, applying
9 pre-defined treatment of costs for rate setting purposes would provide greater
10 regulatory efficiency.

11 **Q. PLEASE DESCRIBE THE FILING PROCESS FOR THE PROPOSED CRS**
12 **MECHANISM.**

13 A. The mechanism is described in full on the Company proposed new Section IX of
14 the Kansas tariffs. By October 1 of each year, the Company will file financial
15 schedules, as more specifically identified in the proposed tariff, relating to the
16 preceding twelve month period ending June 30 (which is called the "Evaluation
17 Period"). Accounting and pro-forma adjustments to the historical period would
18 be applied and identified consistent with treatment in a full rate proceeding in
19 Kansas. Adjustments to rate base and operations and maintenance expenses
20 would be applied for ratemaking purposes, consistent with Commission
21 precedent. Based upon this analysis of the Evaluation Period, a deficiency or
22 sufficiency is calculated. In all calculations within the CRS mechanism, the

1 benchmark return on common equity is set to equal the return approved in the
2 latest general rate case.

3 The change in rates resulting from the calculations would be applied for the 12-
4 month period beginning the following January 1st.

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

7 A. We do not propose submittal of testimony, but we do suggest that the Company's
8 Vice President of Regulatory Affairs for Kansas operations provide verification
9 that the schedules filed are in compliance with the provisions of the CRS tariff
10 and that the information is true and correct to the best of his/her knowledge.

11 **Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED TREATMENT OF**
12 **CERTAIN INVESTMENTS AS SHOWN IN SUBPART A OF THE CRS**
13 **TARIFF ON PAGE 2 OF 4.**

14 A. In large part, the Company bi-annual rate case filing frequency is driven by
15 increasing capital investments. This increase in capital spending is predominantly
16 due to new pipeline safety rules regarding pipeline safety and infrastructure
17 replacement increases to comply with industry requirements. Certainly, the
18 Pflumm line replacement currently underway is a notable example. With
19 continuing regulatory emphasis on assessments and prioritization of renewal of
20 aging gas utility infrastructure, we anticipate more and more replacement activity
21 in the foreseeable future.

22 In recognition of these factors, the Company is proposing to defer, for
23 GAAP accounting purposes, costs of eligible capital investments until recovered

1 in a subsequent rate effective period. Costs deferred would include depreciation
2 expense and interest calculated at the pre-tax cost of capital as last approved by
3 the Commission for the Company.

4 **Q. ARE MECHANISMS IN PLACE SIMILAR TO THE PROPOSED CRS IN**
5 **KANSAS OR OTHER STATES?**

6 A. While no rate stabilization tariffs exist presently in Kansas, according to
7 information from the American Gas Association, such mechanisms do exist in 7
8 states for 14 utility jurisdictions. Atmos Energy successfully operates under rate
9 stabilization models in Georgia, Louisiana, Mississippi and Texas.

10 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**


11 A. Yes.

VERIFICATION

STATE OF TEXAS
COUNTY OF DALLAS

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Gary L. Smith, being duly sworn upon his oath, deposes and states that he is the Director of Rates and 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 17th day of January, 2012.



Notary Public

My appointment expires: 10-29-12

