

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

JAN 26 2012

by
State Corporation Commission
of Kansas

IN THE MATTER OF THE APPLICATION)	Docket No.
OF ATMOS ENERGY CORPORATION)	
FOR REVIEW AND ADJUSTMENT OF ITS)	
NATURAL GAS RATES)	12-ATMG-<u>564</u>-RTS

DIRECT TESTIMONY OF

B. JIM PAUL

FOR ATMOS ENERGY CORPORATION

I. POSITION AND QUALIFICATIONS

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

3 A. My name is B. Jim Paul. My business address is 5420 LBJ Freeway, Suite 1600,
4 Dallas, Texas, 75240.

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

6 A. I am a Senior Rate Analyst for Atmos Energy Corporation ("Atmos" or "the
7 Company").

8 **Q. WHAT ARE YOUR RESPONSIBILITIES?**

9 A. I prepare general rate applications, cost studies, and supporting work papers as well
10 as periodic compliance filings. This typically includes the analysis of rate base,
11 revenue requirement, capital structure, and the filing of schedules and testimony. In
12 addition, I prepare and coordinate data request responses, and facilitate on-site audits
13 by our regulatory agencies.

1 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
2 **PROFESSIONAL EXPERIENCE.**

3 A. I have Bachelor of Science and Master of Science degrees in Mathematics from West
4 Texas State University. My professional experience includes twenty-seven years in
5 the telecommunications industry, where I held a variety of positions including cost
6 studies manager, manager of rates and tariffs, and manager of regulatory strategy.
7 During my tenure as a cost studies manager, I had extensive experience in the
8 preparation of jurisdictional cost of service studies. As a manager of rates and tariffs
9 for a regulated telecommunications company, I prepared rate filings to the Texas
10 Public Utility Commission regarding the rates, terms, and conditions for private line
11 and special access services. In January of 2007 I transitioned to the gas industry
12 when I was hired into my current position as Senior Rate Analyst for Atmos Energy.

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

14 A. No.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION OR**
16 **OTHER REGULATORY ENTITIES?**

17 A. No, I have not testified before this commission. However, I have filed testimony with
18 the Virginia State Corporation Commission in Case No. PUE-2009-00004 and with
19 the Public Utility Commission of Texas in Docket No. 21505.

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II. PURPOSE OF TESTIMONY

22 **Q. WHAT IS THE SCOPE OF YOUR TESTIMONY IN THIS PROCEEDING?**

1 A. I am sponsoring the Company's Class Cost Allocation Study ("Study"). The results
2 of the Study are presented in Section 14 of the Rate Application.

3 **Q. WHAT IS THE PURPOSE OF THE STUDY?**

4 A. The objective of the Study is to present a fair and reasonable allocation of the
5 Company's revenue requirement among the various customer classes. The proposed
6 revenue requirement, excluding gas cost, is allocated among the Residential,
7 Commercial (including Public Authority), School, Industrial and Interruptible, and
8 Irrigation Sales classes and the Firm, Interruptible, and Firm School Transportation
9 classes. The results of the Class Cost Allocation Study may be a useful tool in
10 developing rate design.

11 **Q. PLEASE DESCRIBE THE STUDY.**

12 A. The Study begins with cost data grouped into functional categories including gas
13 production, storage, transmission, distribution, and administrative and general. The
14 costs within each functional group are then reviewed to assess whether the costs are
15 more related to the number of customers served, the amount of commodity used, the
16 peak use demand placed on the system or a combination of these items. Factors are
17 developed to allocate each cost category among the customer classes. Finally, the
18 allocated costs are compared to current and proposed revenues for each customer
19 class with the result of the comparison expressed as a rate of return on rate base for
20 each class.

21 **Q. HOW WERE THE CUSTOMER CLASS GROUPINGS DETERMINED?**

22 A. The customer classes are assigned in the Study to the same groupings used in the
23 Company's filing in its last case, Docket Nos. 10-ATMG-495-RTS with one

1 exception. Since there no longer are any customers for Schools Interruptible
2 Transportation, that class was not retained. The groupings correlate directly with
3 tariff rate schedules. Consistent with past rate case precedents, the special contract
4 customers have been separated from the transportation class and their revenues have
5 been allocated across all other (including transportation) classes based on annual
6 throughput.

7 **Q. PLEASE EXPLAIN THE ORGANIZATION OF THE STUDY.**

8 A. Page 1 shows a summary of the results of the Study by class. The allocation of
9 Kansas rate base is on pages 2 and 3 of the Study. Margin revenue is shown on page
10 4, operating expenses are shown on pages 5 and 6 and allocation factors are shown on
11 pages 7 and 8. Additional workpapers supporting the Study are included beginning
12 on page 9.

13 **Q. HOW WERE THE COST ALLOCATION FACTORS DETERMINED?**

14 A. The allocation factors are determined based on cost causation. The allocation factor
15 applied to a cost category is chosen with the intent to allocate costs proportionately to
16 the customer classes that are responsible for causing the cost. However, much of the
17 costs are incurred in common to serve all customer classes and those costs are
18 relatively fixed with regard to changes in customer use. The study allocates most of
19 these fixed, common costs using a combination of peak and average use. This
20 method reflects the fact that the facilities serving the customers and related expenses
21 are incurred to meet peak load requirements and also to provide service throughout
22 the year. For example, mains are designed to meet peak load requirements for all
23 customers on a system and also are used to provide service all year. Therefore, the

1 study allocates costs to each customer class based on 75% peak day consumption, and
2 25% annual throughput for that class. In this way the cost of facilities designed to
3 meet peak demands on the coldest day of the year are allocated among customer
4 classes primarily on the basis of their use of the facilities on the peak day, with a
5 portion of the costs allocated based on use of the facilities throughout the year.

6 **Q. HOW ARE THE COMPONENTS OF RATE BASE ALLOCATED?**

7 A. There are a number of components to rate base and each one needs to be allocated to
8 the customer classes using an appropriate factor. For the residential, commercial,
9 public authority and industrial customers using firm service primarily for space
10 heating requirements, peak day use was estimated from peak month use. For
11 interruptible customers who do not place peak demands on the system in the winter
12 peak day, use was imputed by dividing annual use by 365 days. Use for irrigation
13 customers was imputed by dividing the six month summer season usage by 180 days.
14 I will discuss allocation of each functional group separately.

15 Natural gas production plant is used to meet both peak and annual sales requirements.
16 While we have no such plant during this study period, our study would have allocated
17 to the classes 75% on peak sales and 25% on annual sales.

18 Storage plant is used to meet peak sales requirements and to provide for economical
19 sales service throughout the winter season. Storage gas balances are drawn down to
20 serve sales customers during the months of November through April. Sales usage
21 during these months is defined as winter season sales volume for allocation of storage
22 investment. Storage plant is allocated 75% on peak sales and 25% on winter season
23 sales volume.

1 Transmission plant is used to meet both peak and annual requirements for
2 transportation customers as well as sales customers. It is allocated 75% on peak
3 throughput and 25% on annual system throughput. In this way transportation
4 customers are allocated a share of the costs of the transmission system.

5 Within distribution plant, meter investment is assigned to customer classes based on
6 an analysis of the number and size of meters serving each of the customer classes.
7 Using data from this meter analysis, the investment in services, meter installation,
8 house regulators and installation and large measuring and regulator station equipment
9 is allocated among the customer classes. The remainder of distribution plant is
10 allocated 75% on class use at the peak and 25% on annual throughput.

11 General plant is allocated among customer classes using the percentage of plant for
12 the other functional categories allocated to each class.

13 Accumulated depreciation is allocated following the same bases as the related plant
14 categories.

15 Customer deposits and advances are related primarily to residential and commercial
16 services and are allocated between those classes based on the number of customers
17 served with each class. Storage gas is used to meet winter peak and seasonal
18 requirements so it is allocated 75% on winter peak usage and 25% on winter seasonal
19 usage. Finally, deferred taxes and materials and supplies are allocated to rate class
20 using the percentage of total gross plant.

21 **Q. HOW ARE REVENUES ALLOCATED AMONG CUSTOMER CLASSES?**

22 A. Since revenues are received directly from customers, revenues can generally be
23 directly assigned to the appropriate customer classes. Base charge revenues are from

1 section 17 of the filing, discussed in Mr. Joe Christian's testimony. Since the ad
2 valorem tax surcharge is billed on firm sales services, revenues from that tax are
3 allocated based on annual firm volumes. Miscellaneous revenue is mostly related to
4 customer service charges for such things as insufficient funds charges or reconnection
5 of service. Comprising less than 1% of total revenue, miscellaneous revenue is not
6 easily retrievable by customer class from our customer information system. Instead,
7 it is allocated among classes based on the number of meters served within each class.
8 As previously stated, revenues from Special Contracts have been allocated across all
9 classes based on annual throughput.

10 **Q. HOW ARE OPERATING AND MAINTENANCE EXPENSES ALLOCATED**
11 **AMONG CUSTOMER CLASSES?**

12 A. In general, the allocations follow the allocation of rate base. There were no natural
13 gas production expenses to allocate for this study period but they would have been
14 allocated 75% on non-coincident peak sales and 25% on annual sales. Storage
15 expenses are allocated 75% on peak sales and 25% on winter season sales volume.
16 Transmission expenses are allocated 75% on non-coincident peak throughput and
17 25% on annual system throughput. Distribution expenses are assigned in the same
18 proportion as the related plant account where possible. Common or joint application
19 distribution expenses are allocated based on the percentage of total distribution plant
20 assigned to each customer class. Meter reading expenses are allocated based on the
21 number of meters in each customer class. Other customer accounts, customer service
22 expense and sales expenses are allocated based on the number of bills issued to each

1 class. Administrative and general expenses are allocated in proportion to operating
2 and maintenance expenses for the other functional categories.

3 **Q. HOW ARE OTHER EXPENSES ALLOCATED AMONG CUSTOMER**
4 **CLASSES?**

5 A. Depreciation expense is allocated in proportion to gross plant. Other Taxes are
6 comprised of approximately 88% property taxes with the remainder mostly payroll
7 taxes, so they are allocated 88% on gross plant and 12% on operating and
8 maintenance expenses. Income taxes are allocated in proportion to taxable income.

9 **Q. WHAT ARE THE RESULTS OF THE STUDY?**

10 A. The results are shown on page 1 of the study. Rates of return on rate base at revenues
11 from current rates are calculated for each class at the top of the page. Rates of return
12 on rate base at revenues from proposed rates are calculated for each class at the
13 bottom of that page. The calculation of rates of return on rate base at current
14 revenues shows an overall rate of return of 5.1% and a range of rates of return on rate
15 base from 0.3% for School Sales to 9.4% for Interruptible Transportation. The larger
16 classes, Residential and Commercial/ Public Authority sales have rates of return of
17 4.9% and 5.9% respectively, which frames the overall average rate of return. At the
18 Company's proposed rates, the overall rate of return on rate base would be
19 approximately 8.8%, with the Residential class having a rate of return of 8.8%, the
20 Commercial and Public Authority class having a rate of return of 9.1%.

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

22 A. Yes.

VERIFICATION

STATE OF TEXAS
COUNTY OF DALLAS

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B. Jim Paul, being duly sworn upon his oath, deposes and states that he is a Senior Rate Analyst 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.

B. Jim Paul
B. Jim Paul

Subscribed and sworn before me this 19th day of January, 2012.

Pamela L. Perry
Notary Public

My appointment expires: 10-29-12

