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NASHVILLE, TENNESSEE

IN RE:	)	
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UNITED CITIES GAS COMPANY, a Division of ATMOS ENERGY CORPORATION INCENTIVE PLAN (IPA) AUDIT	)	Consolidated Docket Nos. 01-00704 and 02-00850
	)	
UNITED CITIES GAS COMPANY, a Division of ATMOS ENERGY CORPORATION, PETITION TO AMEND THE PERFORMANCE BASED RATEMAKING MECHANISM RIDER	)	

DIRECT TESTIMONY OF JOHN HACK

Q: Please state your name, place of employment and title

A: My name is John Hack. I am currently Director of Gas Supply Planning for Atmos Energy Corporation ("Atmos" or the "Company"). I have held various positions in Atmos' Gas Supply Department since 1969. I have been responsible for the Company's supply function since Atmos acquired United Cities Gas. As Director of Gas Supply Planning, one of my primary duties is the negotiation and implementation of the Company's gas supply and transportation contracts.

Q. Please describe how the Company's transportation contracts were priced prior to 1999.

A: Before 1999, Atmos' transportation contracts were priced at the maximum rate allowed for each particular pipeline by the Federal Energy Regulatory Commission (the "maximum FERC rate"). It was standard practice throughout the industry for local distribution companies to enter into long term contracts with pipelines and pay the maximum FERC rate for transportation.

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In late 1999, Atmos was successful in negotiating shorter term discounted transportation contracts for the first time as existing long term pipeline contracts came up for renewal. In order to provide Atmos' customers with lower rates, and because of the incentives contained within Atmos' performance-based ratemaking ("PBR") tariff that allow the Company to share in savings from avoided costs, Atmos began to aggressively pursue pipeline discounts.

Q: Were the Company's attempts to negotiate discounted transportation contracts successful?

A. Yes. By October of 1999, Atmos had successfully completed negotiations for discounted rates for three of its smaller transportation contracts. These contracts represented a small percentage of the Company's transportation costs

Atmos continued aggressive negotiations to pursue discount rates in 2000 with Tennessee Gas Pipeline Company and East Tennessee Pipeline (which was owned by Tennessee Gas Pipeline Company at that time), two of the major pipelines serving Atmos' Tennessee area. By November of 2000, Atmos had successfully completed negotiations for discounted rates with Tennessee Gas Pipeline Company for both of its systems, which represented a significant discount to Atmos' Tennessee transportation costs.

Q: Please describe the efforts Atmos undertook to negotiate the contracts.

A: Atmos devoted a substantial amount of resources to negotiating these discounts, and had to expend considerable effort to be successful. The discounts were not simply granted as a result of Atmos' request. Atmos had multiple meetings with Tennessee Gas Pipeline Company representatives. For a period of over a year, Atmos spent substantial amounts of time negotiating, drafting, exchanging, and revising the terms of the transportation contracts. One reason Atmos invested so much time and effort into negotiating the discounted transportation rates was because of the incentives provided under the PBR tariff. If Atmos did not think it would be able to share in the savings it obtained through the negotiations, it may not have expended so much effort in negotiating the contracts, and would have focused its resources in more profitable areas

Q: Did you notify the TRA of the negotiated transportation discounts?

A: Yes. Sometime around the beginning of January 2001, Atmos contacted Mike Horne, then Chief of the TRA Energy and Water Division, to request a meeting between Atmos representatives and TRA staff. The purpose of the meeting was to discuss the transportation discounts Atmos had recently negotiated and how they would be accounted for under the PBR tariff.

Q: Please describe what took place at the meeting with TRA Staff.

A: The meeting was held on January 31, 2001, at the TRA offices in Nashville. I participated in the meeting. The meeting was fairly lengthy, lasting more than an hour. TRA Chief of Energy and Water Division Mike Horne, and TRA staff members Dave McClanahan and Pat Murphy were present at the meeting representing the TRA.

Atmos had arranged for several members of its management to attend the meeting, and had asked me and Patti Dathe, Gas Supply Analyst, to travel from the home office of Atmos in Dallas, Texas to attend. Present at the meeting representing Atmos were, in addition to Ms. Dathe and myself:

(1) Patricia Childers, then Manager of Rates and Regulatory Affairs;

(2) her supervisor, Attorney Mark Thessin, then Vice-President of Rates and Regulatory Affairs;

(3) Alicia Rye, Rate Analyst; and

(4) Ms. Rye's supervisor, Bob Cline, Manager of Rate Administration.

At the meeting, Atmos representatives provided all of the attendees with packet of information, which included a Meeting Agenda. A copy of the information packet is attached as collective Exhibit 1 to this Direct Testimony.[1]

[1] Because the exhibit contains confidential and proprietary information belonging to Atmos, it has been filed under seal

The purpose of the January 31 meeting was to inform the TRA staff that Atmos had successfully negotiated discounted rates for a substantial portion of its transportation contracts. At the meeting, Atmos informed the TRA staff that Atmos, motivated by the PBR provisions allowing it to share in savings from avoided costs, had actually begun efforts to negotiate discounted transportation rates in late 1999. Atmos informed the TRA staff at the meeting that around October of 1999, Atmos was successful in completing negotiated discounts for three of its transportation contracts The combined totals for these contracts represented a very small portion of Atmos' total transportation costs The second page of the information packet Atmos provided to the attendees at the January 31 meeting showed the savings that resulted from those discounted transportation contracts for Atmos' 1999-2000 PBR plan year (Exhibit 1 at p. 2.)

At the meeting, Atmos informed the TRA staff, that due to an oversight, Atmos had neglected to report the savings resulting from the discounted contracts in its annual report for the 1999-2000 PBR plan year. In response to concerns raised by the TRA staff regarding making corrections to the 1999-2000 plan year, which had already been closed, Atmos agreed that it would not seek recovery of its share of the savings for the 1999-2000 plan year.

Atmos then told the TRA staff that just a few months earlier, around November of 2000, Atmos had successfully completed negotiated discounted rates for the Tennessee Gas Pipeline Company and the East Tennessee Pipeline systems. These newly negotiated discounted contracts represented a significant portion of Atmos' total transportation costs as compared to the 1999 discounts Page 3 of the information packet Atmos provided to the attendees at the meeting gave a breakdown of the savings. This sheet listed the maximum FERC rate, the negotiated rate, and the resulting discount for each contract, and computed total monthly and annual savings resulting from those discounts. (Exhibit 1 at p. 2.) Atmos explained to the TRA staff that the savings resulting from the discounted transportation contracts Atmos had negotiated would be considered "avoided costs" under the PBR tariff, and consequently, Atmos would be able to share in those savings under the PBR tariff.

Q Did you discuss the method for calculation of those savings at the meeting?

A: Yes. Atmos walked through the fact that the transportation discounts would be calculated by subtracting the negotiated rate from the maximum FERC rate for each particular pipeline. Atmos also explained that the monthly discounts for all transportation contracts would be added together to reach a total annual savings, which Atmos would then be able to share in according to the percentages outlined in the PBR tariff. (Exhibit 1.) Atmos informed the TRA staff at the meeting that they would begin using this calculation in future quarterly reports, which were due in the upcoming months.

Q. What was the response of the TRA staff at the meeting?

A: The response from the TRA staff at the January 31 meeting was positive. The TRA staff members actively participated in the meeting and asked numerous questions. It appeared that the TRA staff agreed with Atmos' position that the savings from the negotiated discounts were to be included within the avoided costs provisions of the PBR. and did not object to Atmos' proposed method of calculating the savings.

Q. Does this conclude your direct testimony?

A: Yes it does.

Respectfully submitted,

BAKER, DONELSON, BEARMAN
CALDWELL, & BERKOWITZ, P.C.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served via U S Mail, postage prepaid, upon the following this the 30th day of July, 2004:

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EXHIBIT 1

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UNITED CITIES GAS COMPANY,
A Division of Atmos Energy Corporation

January 31, 2001 Meeting with TRA

MEETING AGENDA

Performance Based Rate

I. Avoided Costs Resulting From Negotiated Transportation Contracts

   A. Tennessee Gas Pipeline

   B. East Tennessee Natural Gas

   C. Columbia Gulf

II. Discussion of Reporting Simplification Suggestions

   A. Monthly Reporting

   B. Annual Reporting

III. Status of Nora Filing

EXHIBIT
1

SUMMARY- TENNESSEE PBR SAVINGS

April, 1999 through March, 2000

99-00 PBR	MDQ or Commodity	MSQ	[redacted]	Discounted Rate	Discount	Monthly Discount	No. of Months	Total 99-00 PBR Discount	Contract Effective Date
ETN - FT (Transport)	84,588		[redacted]	$7.11	$0.05	$4,229	12 (Winter=5)	$21,145	01-Oct-99
ETN-LNG (Storage)		339,900	[redacted]	$0.4227	$0.1761	$59,856	5	$299,280	01-Oct-99
CGT-Backhaul FT	75,000		[redacted]	$0.906	$2.2390	$167,925	5	$839,625	01-Nov-99
							PBR 99-00 Year Total	$\boxed{\$1,160,050}$	

6 mos April ~~00~~

Oct 99-

Nov

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SUMMARY- TENNESSEE PBR SAVINGS

April, 2000 through March, 2001

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00-01 PBR

	MDQ	MSQ	Max Rate	Discounted Rate	Discount		Monthly Discount	No. of Months	Annual Discount		Contract Effective Date
Tennessee Gas:											
TRANSPORTATION:											
*FT #27311:											
Zone 1 to 1	56,656		[redacted]	$3.8600	$1.0600		$60,055	12	$720,660		01-Nov-00
-Estmtd Commodity	11,000,000		[redacted]	$0.0221	$0.0445		$40,792	N/A	$489,500	Est'd	01-Nov-00
							$100,847		$1,210,160	S-T	
STORAGE:											
*Storage Service with AESI	(Replaces TGP Contract Numbers FS-PA #2032 and FS-PA #3981)										
-Contract (A)	15,000		[redacted]	$ 1.9200	$ 0.1000	Deliverability	$ 1,500	12	$ 18,000		01-Nov-00
		1,800,000	[redacted]	$ 0.0223	$ 0.0025	Space	$ 4,500	12	$ 54,000		01-Nov-00
-Contract (B)	1,634		[redacted]	$ 1.9200	$ 0.1000	Deliverability	$ 163	12	$ 1,961		01-Nov-00
		193,543	[redacted]	$ 0.0223	$ 0.0025	Space	$ 484	12	$ 5,806		01-Nov-00
							$ 6,647		$ 79,767	S-T	
East Tennessee:											
*ETN - FT (Transport)	84,588		[redacted]	$7.11	$0.05		$4,229	12	$50,748		01-Oct-99
*ETN-LNG (Storage)		339,900	[redacted]	$0.4227	$0.1761		$59,856	5	$299,280		01-Oct-99
*ETN - FT (Transport) (Rocky Top Exp.)	27,500		[redacted]	$ 8.600	$ 1.601		$ 44,028	12	$ 528,330		01-Nov-00
							$108,113		$878,358	S-T	
Columbia Gulf:											
*CGT-Backhaul FT(ETN	15,000		[redacted]	$0.906	$2.2390		$33,585	5	$167,925		01-Nov-00
CGT-Backhaul FT(MID)	30,000		[redacted]	$0.906	$2 2390		$67,170	5	$335,850		01-Nov-00
	45,000						$100,755		$503,775	S-T	
							PBR 00-01 Year TOTAL		***$2,672,060***		

****Apply TN/VA ratio to allocate Tennessee only savings.***

Note: NORA re-negotiation, effective November 1, 2000, is not included.

United Cities Gas Company
SUMMARY- TENNESSEE / VIRGINIA ALLOCATION
April, 2000 through March, 2001

CONFIDENTIAL

00-01 PBR		Monthly Discount	Annual Discount	Tennessee 66%	Virginia 34%	Contract Effective Date
Tennessee Gas:						
Transportation:						
*FT #27311:						
Zone 1 to 1		$60,055	$720,660			
-Estmtd Commodity		$40,792	$489,500			
		$100,847	$1,210,160	$798,706	$411,454	01-Nov-00
Storage:						
*Storage Service with AESI (Replaces TGP Contract Numbers FS-PA #2032 and FS-PA #3981)						
-Contract (A)	Deliverability	$ 1,500	$ 18,000			
	Space	$ 4,500	$ 54,000			
-Contract (B)	Deliverability	$ 163	$ 1,961			
	Space	$ 484	$ 5,806			
		$ 6,647	$ 79,767	$52,646	$27,121	01-Nov-00
East Tennessee:						
*ETN - FT (Transport)		$4,229	$50,748			01-Oct-99
*ETN-LNG (Storage)		$59,856	$299,280			01-Oct-99
*ETN - FT (Transport) (Rocky Top Exp.)		$ 44,028	$ 528,330			01-Nov-00
		$108,113	$878,358	$579,716	$298,642	
Columbia Gulf:						
*CGT-Backhaul FT(ETN)		$33,585	$167,925	$110,831	$57,095	
CGT-Backhaul FT(MID)		$67,170	$335,850	$335,850	$0	
		$100,755	$503,775	$446,681	$57,095	01-Nov-00
		Total PBR - 100%	$ 2,672,060	$ 1,877,749		

Apply TN/VA ratio to allocate Tennessee only savings.

Note: NORA re-negotiation, effective November 1, 2000, is not included.