

STATE OF TENNESSEE

Office of the Attorney General



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August 4, 2006

Darlene Standley  
Utilities Division Chief  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Re: Petition to Open an Investigation to Determine Whether Atmos Energy Corporation Should Be Required by the TRA to Appear and Show Cause That Atmos Energy Corporation Is Not Overearning in Violation of Tennessee Law and That It Is Charging Rates That Are Just and Reasonable —  
TRA No. 05-00258

Dear Ms. Standley:

I am writing to you in response to your data request dated July 21, 2006.

**REQUEST NO. 1:** Provide a rate design generating the revenue deficiency or surplus put forth in Schedule 1 of your exhibits. Also provide the supporting price-out demonstrating the revenue effect of the design.

**RESPONSE NO. 1:** Dr. Brown testified that "The Consumer Advocate has generally supported across-the-board rate changes. At this time however, the Consumer Advocate has not seen any evidence that would suggest the need to alter the across-the-board approach."

The rate design necessary to generate the \$12.4 million revenue reduction per Exhibit CAPD, Schedule 1 would be a 22.7% reduction of all base rates based on \$12,407,308 / \$54,491,796 (gross margin produced by current rates.) This would reduce the average residential bill by about 5% or \$4.30 per month.

**REQUEST NO. 2:** Please provide an explanation of the calculations made to determine the Total Margin calculated in DM1 as well as the growth figures and percentages.

**RESPONSE NO. 2:** As explained on page 2 of Mr. McCormac's testimony, he used the actual growth rate which has occurred in gross margins since 2002 to estimate the growth that will continue in the near future.

"As shown on Exhibit DM1, I examined the gross margins reported on the TRA 3.03 reports for each of the years ended March 31, 2002, 2003, 2004, 2005, and 2006. The gross margins have grown at a rate of \$993,352 per year or \$496,676 every six months. The \$54,491,796 estimate for the year ended September 30, 2006 is based on one half year's growth of \$496,676 added to the \$53,995,120 recorded for the 12 months ended March 31, 2006. This equates to an annual revenue growth rate of 1.82%.

As shown on Exhibits DM3 and DM4, I tested this estimate with the long range growth since the last detailed analysis of revenues in the 1995 rate case. Gross margin has grown at an annual growth rate of 1.88% per year for the last 11 years, which supports the 1.82% that I have calculated."

The specific Excel formula used to compute the straight line trend is "=TREND(E\$90:E\$94,A\$90:A\$94,\$A99)" where E\$90:E\$94 represents the actual total margin reported by Atmos each year ended March 31, 2002 through 2006; A\$90:A\$94 is the range of years ended March 31, 2002 through March 31, 2006; and \$A99 represents the trend line time period(s). The difference between any two trend line years will produce the slope of the trend line. In this case the trend of the reported gross margins yields \$993,352 per year or \$496,676 every six months. The Excel worksheet showing this calculation was attached as Exhibit DM1 to Mr. McCormac's testimony and provided again in response to Atmos Discovery Request Item No. 19 and this request item as "Exh DM1 and2 DR #7,8,9.xls".

**REQUEST NO. 3:** Please provide the Excel Spreadsheet for Exhibit DM5.

**RESPONSE NO. 3:** See attached file "Exh DM5 MFR #22 Customer growth trends.xls".

**REQUEST NO. 4:** Provide the calculations for each line item in CAPD Exhibit Schedule 4.

**RESPONSE NO. 4:** Enclosed is a CD with an Excel file named Atmos Expense Summary TRA. In the worksheet tab named, Atmos Total Expense, expense amounts are found by month, by company for the twelve months ended March 31, 2006<sup>1</sup>. For the fiscal year ended September 30, 2005, the following allocation factors<sup>2</sup> were applied to the companies:

Company 88 - Central TN Division 43.81%  
Company 90 - Eastern TN Division 36.76%  
Company 91 - Brentwood TN Division 40.49%

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<sup>1</sup>Source of Data, Atmos Energy Corporation as electronically filed with the TRA.

<sup>2</sup>Source of Factors, Allen Ashburn of Atmos.

Company 93 - Tennessee Towns 100%

Therefore, applying the factors to the account amounts by Company results in the approximate total operating expense amounts reported on the TRA monthly 3.03 surveillance report (Lines 7-11) for the six months ended September 2005. See cell formulas at Rows 169-172, Columns C-H. For the fiscal year ended September 30, 2006, the following allocation factors<sup>3</sup> were applied to the companies:

Company 88 - Central TN Division 45.07%  
Company 90 - Eastern TN Division 37.07%  
Company 91 - Brentwood TN Division 41.32%  
Company 93 - Tennessee Towns 100%

Therefore, applying the factors to the account amounts by Company results in the approximate total operating expense amounts reported on the TRA monthly 3.03 surveillance report (Lines 7-11) for the first six months of the fiscal year ended September 2006. See cell formulas at Rows 169-172, Columns I-N.

Found in worksheet tab named, Atmos Net Expenses, are the monthly amounts by account for Tennessee reporting after applying the Company factors. Account #8700 for the month of April 05 (Cell J5), for example, is derived as follows:

Company 88 - Central TN Division 43.81% * 13,539 (Cell C5) <sup>4</sup>	=	5,931
Company 90 - Eastern TN Division 36.76% * 5,317 (Cell C33) <sup>5</sup>	=	1,954
Company 91 - Brentwood TN Division 40.49% * 189,821 (Cell C67) <sup>6</sup>	=	76,859
Company 93 - Tennessee Towns 100% (Cell C120) <sup>7</sup>	=	83,424
Total		168,168

This same process was used for all the accounts by month. The total sum by account by month (Cell BC5) reconciles to the total amount in worksheet tab, Atmos Total Expenses, Cell C174.

The direct labor amounts by account were found in MFR #29, worksheet tab 093 for the months of October 2005 through March 2006, Rows 10-63, Columns H-N. The direct labor amounts by account for the months of April 2005 through September 2005 were found in Atmos file response Q10DTB093end05, Rows 691-1394, Columns K-R. The sub-account with the numerical prefix of

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<sup>3</sup>Source of Factors, Allen Ashburn of Atmos.

<sup>4</sup>Worksheet, Tab Atmos Total Expense.

<sup>5</sup>Ibid.

<sup>6</sup>Ibid.

<sup>7</sup>Ibid.

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010 found in Column C by account is the direct labor amount. There are multiple rows by month for some accounts. All of the monthly direct labor amounts from these two response files were pasted into Rows 19-30 of worksheet tab named, Atmos Net Expenses. The monthly direct labor amounts, Rows 19-30 were deducted from the total monthly expense amount, Rows 5-16 to arrive at net non-payroll expense, Rows 33-44. Storage, Transmission, and Distribution accounts are #8140-8950; Consumer accounts are #9010-#9100; Sales accounts are #9110-#9180; and Administrative and General accounts are #9200-#9350. A summation of the account category amounts is found in rows 46-61, Columns AX-BG. The test period amounts total in Column BD, Rows 47-50 were grown for the attrition period (September 2006) by 2.192%. The resulting net operating expense amounts, Column BG, Rows 47-50, reconciles to the "Other" column found in work paper E-SUM-1, P1. The "Total" column of work paper E-SUM-1 and work paper E-UNCOL, P176 amount reconciles to the amounts on CAPD Exhibit, Schedule 4.

**REQUEST NO. 5:** What expense category and what amount has bare steel replacement costs been accounted for in the attrition year.

**RESPONSE NO. 5:** The bare steel replacement costs included in the CAPD's forecast were \$1,455,000 per Atmos' response to MFR #53. No specific plant account assignment was recognized in the forecast, but was evenly distributed for the months of May-September 2006 as plant additions to plant in service. Ordinarily, the costs of removing bare steel is charged to accumulated depreciation.

By copy of this letter, I am notifying all counsel of record.

Sincerely,

A handwritten signature in black ink that reads "Vance Broemel". The signature is fluid and cursive, with the first name "Vance" and last name "Broemel" clearly distinguishable.

Vance Broemel  
Assistant Attorney General  
(615) 741-8700

cc: Counsel of record