

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

DOCKET NO. 05-00258

REBUTTAL TESTIMONY

OF

John Paris

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On Behalf of

ATMOS ENERGY CORPORATION

1 **Q.1. Please state your name, job title and business address.**

2 **A.** My name is John Paris. I am President of the Mid-States and Kentucky Divisions of
3 Atmos Energy Corporation (“Atmos” or “Company”). My business address is 2401 New
4 Hartford Road, Owensboro, Kentucky 42303.

5 **Q.2. Have you previously filed testimony in this docket?**

6 **A.** Yes. I filed testimony on July 17, 2006.

7 **Q.3. What is the purpose of your rebuttal testimony?**

8 The purpose of my testimony is to respond, in broad terms, to the positions taken in the
9 testimony of the Consumer Advocate and TRA Staff, and to provide an overview of the
10 testimony the Company will present through its rebuttal witnesses.

11 **Q.4. What is your reaction to the Consumer Advocate’s proposal to reduce Atmos’**
12 **revenue by over \$12 million and Staff’s recommendation to reduce revenue by over**
13 **\$9 million?**

14 **A.** These numbers have no basis in reality, quantifiable fact or in reason. As the Authority is
15 well aware, rate cases are complex and involve numerous issues of significant financial,
16 theoretical, and philosophical difficulty. Brilliant industry experts, academics and

1 dedicated regulators can all differ with respect to a myriad of issues, and at the same
2 time, all hold valid opinions. Reasonable minds can differ as to such complicated issues
3 as the appropriate rate of return on equity or the proper depreciation methodology to
4 apply. However, in this case, the Consumer Advocate and Staff have each taken
5 positions which, in my opinion, are well beyond the zone of reasonableness. This
6 overreaching has presented the Authority with recommendations which are more than
7 \$15 million apart, from the \$12 million reduction recommended by the Consumer
8 Advocate, to the Company's proposed \$3.3 million increase.

9 However, only a small portion of this \$15 million gap between the parties'
10 positions stems from items upon which reasonable minds can differ. The vast majority of
11 the \$15 million difference is the result of positions which can be sustained only by
12 disregarding reality. Because rates are set for the future, rate cases frequently involve
13 disagreements as to what will happen in the future. Incredibly, this case also presents the
14 Authority with disagreements as to what is happening in the present. Fortunately, those
15 disagreements are easily resolved.

16 For example, one of the most significant positions in this case which falls outside
17 the zone of reasonableness is the conclusion presented by Consumer Advocate witness
18 Dan McCormac and adopted by TRA Staff with regard to the amount of the Company's
19 margin for the fiscal year 2006. As explained in the testimony of Thomas Petersen and
20 Greg Waller, Mr. McCormac's estimate of margin is some \$3 million more than the
21 amount the Company has actually booked for the first 10 months of the 2006 fiscal year
22 and budgeted for the remaining 2 months. Simply correcting the Consumer Advocate's

1 analysis to reflect actual margin amounts experienced in 2006 immediately reduces the
2 recommended \$12 million reduction to approximately \$9 million.

3 Similarly, as explained in the testimony of Thomas Petersen and Greg Waller, the
4 expense calculations presented through the testimony of Consumer Advocate witness
5 Terry Buckner and adopted by TRA Staff understate the Company's 2006 expenses by
6 approximately \$1 million. Again, correcting those expense calculations to reflect actual
7 expenses the Company experienced in 2006 further reduces the Consumer Advocate's
8 recommended reduction by approximately \$1 million, from \$9 million to \$8 million.

9 In addition, as explained in the testimony of Dr. Don Murry, the rate of return
10 recommended by Consumer Advocate witness Dr. Steve Brown is simply unsupportable,
11 and well beyond the zone of reasonableness. Removing the impact of Dr. Brown's
12 unreasonable and unsupportable recommendations on rate of return further reduces the
13 recommended reduction by an additional \$3 million, from \$8 million to \$5 million.

14 Finally, the Consumer Advocate and Staff have failed to make any adjustments to
15 account for changes which will occur following the date of the order in this case. Those
16 known and measurable changes are described in the direct testimonies of Thomas
17 Petersen and Greg Waller, as well as the testimonies of other Company witnesses. A
18 conservative estimate of the impact of correcting for this error would further reduce the
19 recommended reduction from \$5 million to approximately \$3 million.

20 Removing those positions which disregard reality and which, I believe, are clearly
21 outside the zone of reasonableness quickly lowers the reduction recommended in this
22 case from approximately \$12 million to approximately \$3 million, and narrows the gap
23 between the parties' positions from over \$15 million, to just over \$6 million. The

1 Company believes this \$6 million difference, from a recommended reduction of
2 approximately \$3 million, to a proposed increase of \$3.3 million, provides the framework
3 under which the Authority should focus its resources and begin a serious analysis in this
4 case. Within this \$6 million difference between the parties, many significant issues and
5 important points of disagreement remain. Through the testimony presented in this case,
6 the Company has presented the factual, financial, and philosophical support which the
7 Company believes establishes that the rate increase it has requested in this case is just and
8 reasonable.

9 **Q.5. Do you have any indication as to why have the Consumer Advocate and Staff would**
10 **take such extreme positions in this case?**

11 **A.** It appears that the Consumer Advocate and the TRA Staff are seeking to punish Atmos
12 for the fact that Atmos has not filed a rate case since 1995. Atmos is proud of its record
13 in Tennessee. Because of its consistent record of providing the highest quality service to
14 its customers at the lowest possible cost, the Company has been able to operate in
15 Tennessee without increased rates for over 10 years, despite experiencing dramatic
16 increases in expenses such as wages and salaries and higher medical and pension benefits
17 and continually investing in technology and capital improvements. Atmos' success in
18 Tennessee over the past decade has been a benefit to consumers, not a detriment.

19 **Q.6. Please explain how Atmos has been able to operate successfully in Tennessee over**
20 **the past several years without seeking an increase in rates since 1995.**

21 **A.** Atmos merged with United Cities Gas in 1997, during a period of dramatic change in the
22 way services are delivered to natural gas customers. The industry was implementing
23 more modern and sophisticated billing systems, enhanced computer security was

1 becoming a necessity, and companies were upgrading to more centralized customer
2 service and administrative functions. At the time of the 1997 merger with Atmos, United
3 Cities had not made any of these changes, and was not prepared to make the investments
4 required to bring the company to the next level technology and otherwise. After the
5 merger, Atmos invested heavily in technology, and as a result, reduced its operation and
6 management costs.

7 Another factor that has given the customers relief from rate increases for ten years
8 in Tennessee is Atmos' history of seeking efficiencies through acquisitions. Prior to the
9 TXU acquisition in 2004, Atmos went through several planned and carefully calculated
10 stages of growth through acquisition that allocated its Shared Services costs over more
11 and more territory and customers. By spreading costs, Atmos was able to do what the
12 smaller, stand-alone systems could not: it was able to increase efficiency without
13 compromising its customer service.

14 Through a combination of efficiency, technology, and economies of scale, Atmos
15 has enhanced customer service over the past nine years without a single increase in rates.
16 Intuitively, it does not make sense to punish a gas utility in this state for achieving greater
17 efficiency. If the TRA accepts the Consumer Advocate and the Staff's posturing, it will
18 do a grave disservice both to the customers and to the Company. Efficiency and expense
19 reduction should be rewarded, not punished.

20 All gas utilities are subject to the same economic principle of attrition. It is the
21 economic equivalent of the earth's gravitational pull. This principle is widely recognized
22 by regulatory agencies nationwide. The simple fact is that while Atmos' return in
23 Tennessee started healthy, and remained steady for a period of years following the last

1 rate increase in 1995, even with Atmos' efficiency and cost-savings, at some point the
2 natural effects of attrition had to take hold. The turning point was around 2001. From
3 that point forward, Atmos has seen a consistent downward trend in earnings in
4 Tennessee. Due in large part to plant improvements and system reinforcements
5 necessitated by strong economic growth in our region, and steadily rising inflation,
6 Atmos has no longer been able to increase efficiencies at a level sufficient to counteract
7 the natural effects of attrition. This is natural and has occurred despite the best efforts of
8 Atmos. Atmos' service areas continue to experience near record growth, and inflation is
9 expected to rise in the future. There is no reason to believe that the recent downward
10 trend in earnings Atmos has experienced in Tennessee will not continue in the future. As
11 demonstrated in more detail through the direct testimonies of Thomas Petersen and Greg
12 Waller, Atmos' earnings will continue to decline in 2007 and beyond.

13 **Q.7. Does this conclude your rebuttal testimony?**

14 **A.** Yes.