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January 25, 2008

Eddie Roberson, Chairman
Tennessee Regulatory Authority
460 James Robertson Pkwy.
Nashville, TN 37243-0505

filed electronically in docket office on 01/25/08

***Re: Tariff Filing to Modify and Add Language Regarding Transportation Service
Docket No.: 07-00020***

Dear Chairman Roberson:

In behalf of the Atmos Intervention Group, please find enclosed an original and five (5) copies of the direct testimony of W. Brent Phelts, Daryl Gardner, and William H. Novak.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By: Henry Walker

HW/djc
Enclosures

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IN THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

January 25, 2008

IN RE: TARIFF FILING TO MODIFY AND ADD LANGUAGE REGARDING TRANSPORTATION SERVICE	)))	**TRA Docket No. 07-00020**

DIRECT TESTIMONY OF W. BRENT PHELTS

IN BEHALF OF ATMOS INTERVENTION GROUP

Direct Testimony of W. Brent Phelts

Q. **Please state your name, business address and occupation.**

A. I am W. Brent Phelts, PE a natural gas Consultant located at 120 Interstate Parkway SE, Suite 102, Atlanta, Georgia 30339.

Q. **What is the primary service or function of W. Brent Phelts.**

A. My primary service is to assist end users primarily state and local political subdivisions and large natural gas users with optimizing fuel assets and managing natural gas costs. This includes planning, procurement, and locating the best supply sources and the lowest total costs natural gas available. We also develop budget models and implementing hedging strategies to mitigate the adverse impacts of natural gas price volatility. I manage accounts for over 2,000 minor accounts, 60 major industrial clients located in 14 States. I developed and serve as program manager for the State of Georgia's natural gas procurement program for all State facilities.

Q. **Please outline your educational and professional training and experience.**

A. I received a Bachelor in Industrial Engineering from the Georgia Institute of Technology in 1975. I have over 30 years of gas industry experience which including, Director of Industrial Commercial Marketing for Atlanta Gas Light Company 1992-1995. In 1996 – 1997 I was the senior member of the start up team for "The Energy Spring", an Atlanta Gas Light Company marketing affiliate now operating as Georgia Natural Gas Company. I left and started W. Brent Phelts, PE consulting in 1997 where I have continued to work in the natural gas industry.

Q. **Have you previously submitted testimony before the Tennessee Regulatory Authority?**

A. No, I have not.

Q. What is the subject of your testimony?

A. I will provide you with insight into the consequences of overly restrictive balancing rules, and the adverse impact to large gas transporters and provide you insight into the how, transportation policies and daily balancing fees have discouraged competition, specifically, in Georgia and other markets where higher costs for transportation customers occur. I will also address Lost and Unaccounted for gas and how these costs were allocated to industrial transportation customers in Georgia by Atlanta Gas Light Company.

Q. Briefly explain how industrial customers buy and nominate their gas?

A. Most industrial transporters purchase natural gas through a third party gas supplier or gas marketer. A supplier is selected based on a number of service factors that equate to overall costs of service. Two of the most important costs are the transportation basis to deliver gas from the wellhead to city gate and imbalance costs on the utility. Natural gas is normally purchased as a base load plus swing load basis where a customer's monthly requirements are nominated each day based on the average daily requirements. For example, if a customer's monthly requirement is 3,000 dekatherm for a 30 day month, then gas maybe purchased and nominated at a rate of 100 dekatherms/day. Typically, intra-month purchases are made if a customer is using more than delivered. Conversely, an intra-month sell may be required if a customer is using less than the forecasted delivery. Most connecting pipeline company's level of service is monthly balancing where they manage the daily balancing requirements of their customers. This is included in their costs of service.

Q. **Why is it unreasonable to expect a customer or pooler to match exact loads with daily nominations?**

A. A customer's gas consumption can be highly variable based on many factors including weather, maintenance, production changes and other factors. For these reasons interstate pipelines allow for daily swing loads with reasonable transportation tariffs and balancing rules. Furthermore, very few industrial customers possess real time gas consumption monitoring equipment making it nearly impossible to make intra-day adjustments to stay in balance. Another issue is the pooler/marketer's ability and lag time needed to make adjustments to gas nominations. I suggest that the added monitoring costs and fees associated with daily balancing would be material to discouraging competing suppliers and would result in suppliers electing to not enter or leave markets with strict balancing requirements.

Q. **What has been your observation on the impact of daily balancing to competition in Atmos's markets in Georgia?**

A. I manage natural gas procurement for several customers served in the Georgia markets in Atlanta Gas Light Company areas, and Atmos' service areas of Columbus and Gainesville GA. Based on my experience, Atmos Energy Corporation's s daily balancing requirements in Georgia has discouraged competition and resulted in the Atmos' marketing affiliate being my only practical choice with nearly all competitive non-affiliate suppliers vacating these markets. The cost risk associated with balancing normal weekend and swing loads are important in my selection of a supplier. My existing accounts located in Atmos Energy's franchise areas are served by Atmos' affiliate.

Q. **Compare the number of competitive suppliers that are viable options behind Atlanta Gas Light versus customers served in Columbus Georgia behind Atmos?**

A. For example, behind Atlanta Gas Light, I may have 5 to 7 viable gas suppliers or marketers that may respond to a bid for an large commercial or industrial customer or the State of Georgia contract. For my industrial clients located in Atmos' service area in Georgia, I have very limited supplier choices since most suppliers do not enter and cannot manage the daily balancing requirements competitively. For these reasons, Atmos' marketing affiliate has been my sole gas marketer for these markets in the past five years.

Q. **What other adverse impact has daily balancing had on industrial customers who transport gas for the Atmos Georgia markets?**

A. With the limited competition behind Atmos, interstate transportation costs have increased and are higher for my clients served by Atmos. In most cases the cost increase has been more than $.10 per dekatherm compared to other market areas on Georgia.

Q. **In reviewing Atmos' responses to how they are currently treating affiliate and non-affiliate poolers, do you think this market facilitates competition?**

A. Based on my understanding, Atmos' affiliate is allowed to net out imbalances at month end and avoid cashout. They also appear to realize the full benefit of Atmos' storage assets and can use these assets mitigate penalties and fees. Based on these facts, Atmos' marketing affiliate has a definite advantage over any non-affiliate marketers. This has contributed to their market-share dominance in many areas including Tennessee.

Q. **Will the proposed changes to Atmos' Transportation Tariff improve the competitive environment and allow for a fair market where affiliate and non-affiliates have the opportunity to compete for natural gas supply for Atmos' transportation customers.**

A. No, even though some of the proposals such as pooling will allow non-affiliates to same benefit as Atmos' affiliate, I am concerned that the adverse impacts of the daily balancing will outweigh the benefits of the pooling and not significantly increase competition. Non-affiliates will likely be at a greater disadvantage due to the following inequities. First, daily balancing fees will be less punitive to larger pools and this will favor Atmos' marketing affiliate. Second, if Atmos' marketing affiliate manages all of the storage and capacity assets and nets out volumes with the Company's supply, they have the tools to better manage daily balancing. In my opinion, the playing field for competitive suppliers is not level under Atmos' proposed transportation tariff, and competition may never really be effective in these areas. Therefore, natural gas costs will be higher for large gas users and manufacturers that transport gas behind Atmos.

Q. **If you were managing transportation customers behind Atmos in Tennessee, would these competitive advantage influence your decision to opt for service from Atmos' affiliate compared to a non-affiliate.**

A. Absolutely, I am certain that I would continue to favor Atmos' affiliate since I know that there would be less risk for my clients with fewer cashout fees or penalties with the affiliate. I could not be given the same level of guarantee with non-affiliates without significantly higher costs, which constitutes higher risk and cost to customers. Additionally, for any utility area, I look at transportation policies and balancing rules during the supplier selection process, and when it appears there is an advantage with the affiliate or utility's asset manager, I must make the prudent decision and use them for my client's natural gas services.

Q. Do you manage accounts behind Chattanooga Gas that are served by an affiliate company? If so, do they receive any special balancing treatment from Chattanooga Gas Company?

A. I currently manage a gas account behind Chattanooga that is served by an affiliate marketer, Southstar Energy Services LLC. This account receives no preferential treatment from Chattanooga Gas Company and my client has paid material cashout fees for monthly imbalances. I have managed clients served by Chattanooga Gas Company and used Atmos' marketing affiliate for the gas supplier. In Chattanooga, both affiliate and non-affiliate suppliers are required to balance according to Chattanooga Gas Company's tariff.

Q. Your experience with Chattanooga Gas Company is both affiliate and non-affiliate marketers are treated the same in regards to balancing and penalties?

A. That is correct. There is no advantage to an affiliate. There is always a concern of an unfair advantage when dealing with an affiliate. Chattanooga Gas Company's system is open to competition as demonstrated by the number of transporters that have operated on their system.

Q. **Do you have any knowledge of how other jurisdictions have allocated costs for Lost and Unaccounted for Gas or shrinkage on a local distribution system.**

A. Yes, many of my clients are served by Atlanta Gas Light Company. In April of 2002, Docket 8390-U, Atlanta Gas Light filed to allocate shrinkage costs based on the average system shrinkage incurred by the Company. The same methodology is proposed by Atmos in this proposed transportation tariff.

Q. **Do you believe this is a fair methodology for allocating shrinkage costs for Atmos?**

A. No, I believe most of the costs associated with shrinkage are independent of the system transportation thru-put or volume. For example, the Company may have the same costs for gas leaks, third party damage and gas theft regardless of the volumes transported through their system. Therefore, when Atmos' imposes an average shrinkage percentage and applies this percentage equally across the system, it defies cost of service principles which are built into the current base rates.

Q. What did the Georgia Commission approve in regards to the shrinkage costs?

A: They approved a joint settlement between the interveners, which reduced the overall shrinkage costs to .8%. (The initial shrinkage percentage was over 2%). This was due to the difficulty in documenting actual loss factors from large use customers with meter sets tested annually.

Q. **What do you recommend would be the most appropriate percentage to allocate to transportation customers?**

A. I agree that transportation customers should pay a fair share of shrinkage, this shrinkage costs should be based on cost of service economics. I have reviewed AIG's proposed tariff and would agree that allocated these costs based on the current margin contribution would better reflect costs of service and align closer to what was approved in Georgia.

Q. **From your point of view what would be your recommendations on a proposed tariff change for Atmos and appropriate balancing natural gas policy in Tennessee.**

A. A good balancing policy will facilitate supply competition while protect the integrity of a utility system and their firm ratepayers. Certainly, a fair balancing policy should be cost based and align with the balancing requirements that connecting pipeline companies impose on the utility. For this reason, on normal days it would be difficult to justify charging daily balancing fees to transportation customers behind Atmos and other LDC's in Tennessee. Secondly, OFO penalties should generally pass through the same penalties as imposed by the connecting interstate pipeline companies. Atmos' proposal to increase OFO penalties is well over what most connecting pipeline companies charge. Third, LDC tariffs should reflect a "no harm no foul" policy regarding penalties, provided the system and firm ratepayers can be materially protected. A "no harm no foul" policy allows the LDC to only pass through penalties that they actually incur. If no penalties are paid because of overruns, then they should not assess penalties to poolers.

This concludes my prepared testimony;

W. Brent Phelts

W. Brent Phelts, PE

VERIFICATION

STATE OF GEORGIA

COUNTY OF FULTON

I, W. Brent Phelts, being duly sworn state that I am authorized to make this verification on behalf of Atmos Intervention Group; that I have read the foregoing Testimony and Exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

W. Brent Phelts

Sworn and subscribed before me this 24th day of January, 2008.

Notary Public

My Commission Expires: FREDERICK S. JOSEPH
Notary Public-DeKalb County, Georgia
My Commission Expires April 21, 2010

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing is being forwarded via U.S. mail, to:

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on this the25th day of January, 2008.

Henry Walker

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IN THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

January 25, 2008

IN RE: TARIFF FILING TO MODIFY AND ADD LANGUAGE REGARDING TRANSPORTATION SERVICE	)))	**TRA Docket No. 07-00020**

DIRECT TESTIMONY OF DARYL GARDNER

IN BEHALF OF ATMOS INTERVENTION GROUP

Direct Testimony of Daryl Gardner

Q. **Please state your name, business address and occupation.**

A. I am Daryl Gardner, Purchasing Manager for The Goodyear Tire & Rubber Company, Union City Plant. My business address is 3260 Goodyear Blvd., Union City, TN. 38281

Q. **What are your principal responsibilities as Purchasing Manager/Facilities Engineer for The Goodyear Tire & Rubber Company?**

A. I am responsible for all plant purchasing, contractors,

Q. **Please outline your educational and professional training and experience.**

A. I received a Bachelor of Science degree with an emphasis in Business Administration from the University of Tennessee at Martin with 37 years experience in Purchasing and Materials Management..

Q. **Have you previously submitted testimony to this Authority?**

A. No.

Q. **What is the subject of your testimony?**

A. I will present information opposing Atmos Energy Corporation's filing for a revised natural gas transportation tariff submitted to this Authority where the gas company asks to impose higher costs and additional burdens on ratepayers such as Goodyear Tire & Rubber Company, Union City Plant

Q. **Have you prepared any exhibits to accompany your testimony?**

A. No.

Q. **Does your company have a facility located in Obion County, Tennessee that utilizes fuel supplied by Atmos Energy?**

A. Yes. Goodyear Tire & Rubber Company has a manufacturing facility in Obion County, Tennessee that employs over 2750 people at wages significantly higher than minimum wage. The Union City facility has been in existence for over 40 years.

Q. **Is Union City the only area in which Goodyear Tire & Rubber Company operates?**

A. No; our company has facilities in several states and Canada other than Tennessee. The Tennessee operations generate about $300 million per year in economic impact for the state economy.

Q. **Please describe the type of labor that your company uses in its manufacturing and production processes in Union City.**

A. Our company directly provides jobs for lower skill levels requiring a high school education or less, as well as very technical occupations and careers requiring college and post-graduate degrees.

Q. **Does Goodyear Tire & Rubber Company intend to expand its facilities in Obion County, Tennessee?**

A. We hope to do so.

Q. **Does the cost of utility services factor into such expansion plans?**

A. Of course, all costs and expenses factor into such plans for any company that seeks to increase capacity and grow jobs in Obion County. Our manufacturing operations utilize a tremendous amount of natural gas and we are concerned that he proposed transportation tariff will increase our natural gas costs and administrative costs associated with avoiding daily balancing fees and extremely high penalties. We also feel that it will discourage a competitive supply market that ultimately reduces natural gas costs for Atmos' ratepayers.

Q. **Please describe your company's use of natural gas in its manufacturing and production processes in Union City.**

A. Natural Gas is used to fuel 4 boilers for steam generation for curing process and building heat.

Q. How much natural gas is used in your Obion County production processes?

A. In 2007, our company used 894,298 MCF of natural gas.

Q. Does your company have a secondary fuel to use in the production processes currently fueled by natural gas?

A. Yes, #6 fuel oil.

Q. **Please explain.**

A. All 4 of our boilers have the ability to be switched over to fuel oil in a very short time. We can store about 760,000 gallons.

Q. **Is natural gas the cleanest, most efficient burning fuel your company can use?**

A. Yes.

Q. Would there be any adverse effects to Goodyear caused by switching over from natural gas to your backup fuel?

A: No, There appears to be an ample supply of fuel oil on the market at a reasonable price and high Btu content. We can store up to 1,520,000 gallons of oil on site by re-commissioning our north tank. High use of fuel oil is not new to the Union City operation. With the construction of a synfuel plant to produce our steam, very little natural gas if any would be needed for production. Discussions have begun with consultants and investors to construct such a plant on site.

Q. **Does your company have the ability to bypass Atmos Gas Company's gas pipeline?**

A. Yes, Goodyear owns the pipeline right-a-way and the current economics do not meet Goodyear's threshold rate of return requirements. However, with the additional costs that may be imposed by this proposed transportation tariff, we may have to revisit the economics of bypass.

Q. **Describe the impacts on Goodyear Tire & Rubber Company Union City Plant facility or production processes that Atmos Gas Company's proposed transportation tariff, penalty and balancing provisions will have if approved by the Tennessee Regulatory Authority.**

A. The tire industry has been operating on slim to non-existent margins for several years. An increase in the natural gas rates will only add to the hardships of operating successfully in the automotive industry. Goodyear Tire & Rubber Company is involved in an OEM and Replacement industry and does not have the luxury of simply raising its prices in a manner equal to the production cost increases it will experience if our natural gas costs are adversely impacted by this tariff proposal.

Q. **Please explain.**

A. Tire manufacturing is a global market now and extremely competitive.

Q. **From your point of view would Atmos Gas Company's petition constitute an appropriate natural gas policy for the State of Tennessee?**

A. No, not in all respects. With so many variables that affects the demand for Natural Gas daily, it is going to be impossible to forecast needs and manage daily balancing fees and higher penalty costs. Goodyear Tire and Rubber Company would also be interested in the benefits of underutilized gas storage assets that could be utilized more effectively to manage our costs.

Q. **Would your Union City facility operate at a competitive disadvantage if the Company's proposed changes are allowed to be implemented?**

A. Yes. Higher fees and administrative costs would have an adverse impact to our business.

Q. **Please explain.**

A. Certainly. Goodyear Tire & Rubber Company has invested a significant amount of money in the Union City, Tennessee operation. Of course, we would like to continue to attract additional investment in this production facility; however, to the extent that the margins are lowered or extinguished due to increased costs, then capital investment and jobs will not be assigned or implemented in the Union City facility but is going to other states in which Goodyear Tire & Rubber Company already operates.

Q. **Is there anything you would propose with respect to the tariffs, pricing, penalty or balancing policy that you would suggest the Authority consider?**

A. Yes.

Q. **What would you propose?**

A. We support the proposed tariff of the Atmos Intervention Group with no daily balancing fees, and reasonable OFO penalties. We also support the value of gas pipeline capacity storage assets be made available to Atmos' ratepayers, and not necessarily assigned to an affiliate company.

Q. **Does this complete your testimony in this rate increase proceeding?**

A. Yes.

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF OBION)

I, Daryl Gardner and Dennis Burden, being duly sworn state that I am authorized to make this verification on behalf of Atmos Intervention Group and Goodyear Tire and Rubbery Company; that I have read the foregoing Testimony and Exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

Daryl Gardner
Dennis Burden

Sworn and subscribed before me this 24th day of January, 2008.

Lori A. Damons
Notary Public

My Commission Expires: 8-10-08

LORI A.
STATE OF TENNESSEE NOTARY PUBLIC
COUNTY OF OBION

IN THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

January 25, 2008

IN RE: TARIFF FILING TO MODIFY AND ADD LANGUAGE REGARDING TRANSPORTATION SERVICE	)))	TRA Docket No. 07-00020

DIRECT TESTIMONY OF WILLIAM H. NOVAK

IN BEHALF OF ATMOS INTERVENTION GROUP

Q. Would you state your name, business address and occupation for the record, please?

A. My name is William H. Novak. My business address is 19 Morning Arbor Place, The Woodlands, TX, 77381. I am the owner of WHN Consulting, a utility consulting and expert witness services company.

Q. Please provide a summary of your background and professional experience.

A. I have both a Bachelors degree in Business Administration with a major in Accounting, and a Masters degree in Business Administration from Middle Tennessee State University. I am also licensed to practice as a Certified Public Accountant in Tennessee.

My work experience has centered around regulated utilities for over 25 years. Before establishing WHN Consulting, I was Chief of the Energy & Water Division of the Tennessee Regulatory Authority where I had either presented testimony or advised the Authority on a host of regulatory issues for over 19 years. In addition, I was previously the Director of Rates & Regulatory Analysis for two years with Atlanta Gas Light Company, a natural gas distribution utility with operations in Georgia and Tennessee. I also served for two years as the Vice President of Regulatory Compliance for Sequent Energy Management, a natural gas trading and optimization company in Texas.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present Atmos Intervention Group's ("AIG's") position on the proposed changes to the transportation tariff of Atmos Energy Corporation ("Atmos" or "the Company") for the TRA's consideration. I have also prepared a redacted transportation tariff, which I will refer to throughout the rest of my testimony as Rate Schedule 260, that incorporate AIG's recommendations and have attached it to my testimony as Exhibit AIG-1.

Q. Please summarize the Company's proposed changes to Rate Schedule 260.

A. The Company has proposed a number of revisions that significantly alter Rate Schedule 260. These changes include:

1. A definition and implementation of the Maximum Daily Quantity ("MDQ") for each customer along with a limit of daily nominations;
2. A definition of Operational Flow Orders ("OFO") and their implementation;
3. Clarifying procedures used to calculate the customer's monthly cashout;
4. Implementation of daily scheduling fees for daily imbalances outside of a 10% tolerance for under or over nominated supplies;
5. The implementation of pooling provisions; and
6. Provisions addressing the allocation of lost and unaccounted-for gas ("shrinkage") to Rate Schedule 260.

Q. Does AIG agree with each of these changes?

A. Not entirely. We <u>agree</u> with the Company's proposals for the implementation of MDQ and daily nominations, clarification of cashout procedures, and implementation of pooling provisions (items 1, 3 and 5 above). However, we <u>disagree</u> with the Company's proposals for OFOs, daily scheduling fees and shrinkage (items 2, 4 and 6 above) and have instead proposed alternative language as shown in Exhibit AIG-1 that addresses our concerns.

Q. Please describe AIG's concerns with the Company's proposed tariff language to define and implement OFOs in Rate Schedule 260.

A. The Company's tariff proposal related to OFOs seeks to impose much harsher penalties than most of their Connecting Pipeline Companies.[1] In addition, the Company's proposed OFO tariff language discriminates between their interruptible sales customers and transportation customers. For example, under the Company's proposed tariff, Atmos can unilaterally declare an OFO and thereby impose penalties to transporation customers while they are still supplying gas to interruptible customers! We believe that this treatment is discriminatory and have instead proposed OFO language that would treat both interruptible and transportation customers in a similar manner.

In addition, the Company's proposed OFO language imposes a penalty $25.00 per Dth for those customers not complying with the terms of the OFO. However, the Company has the ability to mitigate pipeline overruns by nominating gas out of storage and reducing its reliance on pipeline deliveries. We therefore believe that $25.00 per Dth penalty is much too harsh, considering the mitigation options available to the Company.[2]

Q. Does the AIG proposed tariff language address the cost recovery of OFOs?

A. Yes. First, we have proposed a smaller OFO penalty of only $5.00 per Dth. In addition, under our proposal, the Company would only be able to charge the OFO penalty rate in situations where the actual gas usage by transportation customers caused the Company to pay a higher OFO penalty to the Connecting Pipeline Company. Therefore, our proposal results in a "no harm, no foul" policy, in that the Company can only assess OFO penalties to its customers that it has first been forced to pay to its Connecting Pipeline Company.

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[1] As defined in Rate Schedule 260, "Connecting Pipeline Company" means a pipeline supplier to the Company whose facilities in the sole judgment of the Company can be utilized to transport gas to the Company for delivery by the Company to the Customer.

[2] In contrast to the $25.00 per Dth OFO penalty, the current wholesale cost of gas is approximately $10.00 per Dth.

Q. What if the Connecting Pipeline Company's OFO charge is greater than $5.00 per Dth?

A. Our proposed tariff language allows the Company to pass all of its OFO costs to any customer that caused an OFO event, even if the cost is greater than $5.00 per Dth. In sum, our proposal keeps the Company whole from any OFO costs that are caused by a transportation customer.

Q. Please describe AIG's concerns with the Company's proposed tariff language regarding daily scheduling fees in Rate Schedule 260.

A. The Company has proposed to implement a Daily Scheduling Fee for those transportation customers whose actual usage is either greater than or less than 10% of their daily nomination. AIG feels that such a charge is inappropriate. The Company has already testified that none of the Connecting Pipeline Companies presently impose a daily scheduling fee.[3] Therefore, the Company is seeking to impose a new fee on transportation customers that is not cost based. Instead, the Company presently receives a monthly balancing service from the Connecting Pipeline Companies. AIG believes that this same monthly balancing service should be passed through to Atmos' transportation customers. We have therefore eliminated the Company's proposed language for daily scheduling fees on Rate Schedule 260 as reflected in Exhibit AIG-1.

Q. Please describe AIG's concerns with the Company's proposed tariff language regarding shrinkage in Rate Schedule 260.

A. Shrinkage represents the difference between the volume of gas sent out by the Company for delivery to its customers and the volume of gas actually received by the customers as measured by individual meter readings. The primary causes of shrinkage are leaking gas mains, slow meters, stolen gas and improper billing.

[3]Direct testimony of Company witness Malter, Page 4.

In its proposed language for Rate Schedule 260, the Company is asking to assign shrinkage to each customer class based on throughput.[4] However, the causes of shrinkage are <u>not</u> a direct linear function of gas flowing through the Company's mains, since unlike an interstate pipeline, an LDC like Atmos delivers uncompressed gas. This means that an increase in throughput volumes will not produce a linear increase in shrinkage.

For example, if the Company adds a major new industrial customer to their system, the increase in shrinkage will not be proportional to the new increase in gas usage. Instead, the Company would likely have an insignificant change in shrinkage. This is why an average shrinkage rate based on throughput is not an equitable or fair method of allocating shrinkage costs to Rate Schedule 260.

It should be noted that neither Chattanooga Gas Company nor Nashville Gas Company presently impose a charge to their transportation customers for shrinkage. While AIG is not opposed to paying a portion of the shrinkage costs, we do believe these costs should be fairly allocated. Instead of allocating shrinkage based on throughput, AIG has proposed to allocate shrinkage to transportation customers based on the margin collected from each rate class. As shown on Exhibit AIG-2, Schedule 1, a shrinkage provision based on margin allocates 0.70% of shrinkage costs to the transportation class vs. a 2.00% allocation based on throughput.

Q. Mr. Novak, is there any corroborating evidence to support a 0.70% end result for a shrinkage allocation to transportation customers?

A. Yes. Exhibit AIG-2, Schedule 3 shows the current effective transportation shrinkage tariff of Atlanta Gas Light Company ("AGLC") in Georgia. AGLC has over 1.5 million customers in Georgia. AGLC and its industrial intervenor group

[4] Section C(vi) of Company's proposed Rate Schedule 260.

recently reached a settlement in their last rate case with both sides supporting a flat 0.80% allocation of shrinkage cost to transportation customers. We believe that the AGLC tariff supports the results reached with shrinkage based on gross margin instead of throughput.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF DAVIDSON)

I, William H. Novak, being duly sworn state that I am authorized to make this verification on behalf of Atmos Intervention Group; that I have read the foregoing Testimony and Exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief.

William H. Novak

TRANSPORTATION SERVICE

Schedule 260: All Service Areas

A. Availability

This rate schedule provides for the transportation of gas received by the Company from the Connecting Pipeline Company for the Customer's account to that Customer's facilities. Service under this rate schedule is available to commercial and industrial customers using ~~100,000~~ 25,000 Ccf or more per year. This rate schedule is offered as a companion to the customer's existing sales rate schedule.

B. Definitions

For purposes hereof:

(i) "Connecting Pipeline Company" means a pipeline supplier to the Company whose facilities in the sole judgment of the Company can be utilized to transport gas to the Company for delivery by the Company to the Customer under this rate schedule.

(ii) "Transportation Imbalance" occurs when more or less gas is received by the Company from the Connecting Pipeline Company for the Customer's account, ~~less the unaccounted-for-gas adjustment~~, than is delivered to that customer's facilities for the month.

(iii) "PGA Rider" means the Company's Purchased Gas Adjustment Rider, as amended and approved by the Tennessee Regulatory Authority from time to time.

(iv) "Maximum Daily Quantity" (MDQ) means the maximum daily volume of gas, as determined by the Company based on Customer's historical metered volumes, that a Customer under this Rate Schedule will be allowed to nominate and have delivered into the Company's system for the Customer's account.

(v) ~~"Operational Flow Order" (OFO) is any order from the Company or the Connecting Pipeline Company that requires transporter to hold to their daily allocated volumes or any other pipeline directive, or any Company directive.~~ "Operational Flow Order" (OFO) is any order from the Company that requires transporter to hold to their allocated volumes and requires the Company to curtail interruptible supply served under the Company's Rate Schedule 250. An OFO is typically caused by a similar order issued from the interconnecting pipeline or from a local supply restriction whereby an OFO is required to maintain the integrity of the distribution system.

(vi) "Transportation Allocation Factor" (TAF) is a factor that is determined by taking the average revenue per Ccf from Rate Schedule 260 transportation customers divided by the average revenue per Ccf from all customers. The TAF is then used to determine the appropriate amount of Lost and Unaccounted-For Gas to be collected from Rate Schedule 260 customers as explained in Section C(vi).

C. Terms and Provisions of Service Under This Rate Schedule

(i) Except as expressly modified by the provisions of this rate schedule, all of the terms, provisions and conditions of the rate schedule (as made effective by the Tennessee Regulatory Authority from time to time) applicable to Customer shall also apply to service by the Company to Customer under this rate schedule.

(ii) The Customer must notify the Company on Company's standard form of the quantity of gas to be received by the Company from the Connecting Pipeline Company for the Customer's account during the billing month and the daily rate of delivery. This nomination must be received by the Company by the nomination deadline of the Connecting Pipeline Company for both first of the month nominations and mid-month changes. The quantity of gas received by the Company from the Connecting Pipeline Company for the Customer's account shall be based on the transportation nomination for that month. Adjustments will be made if the Connecting Pipeline Company's allocated volumes vary from the nominated volume. Daily nominations shall not exceed the Customer's Maximum Daily Quantity (MDQ).

(iii) The Customer is responsible for making all arrangements for transporting the gas from its source of supply to the Company's interconnection with the Connecting Pipeline Company unless other arrangements have been made between the Customer and the Company.

(iv) The Customer shall warrant that they have good and legal title to all gas which Customer causes to be delivered into the Company's facilities and Customer shall hold the Company harmless from any loss or claim in regard to the same.

(v) The Customer shall have the obligation to balance receipts of transportation gas by the Company at the Company's applicable Receipt Point(s) with deliveries of such gas by the Company to the Customer's Point of Delivery plus retention amounts pursuant to item (vi) below. Cash outs for Positive and Negative imbalances will be levied as described below.

(a) Imbalance equals the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account minus the volume of gas delivered to the Customer's Point of Delivery.

(b) Imbalance percentage equals the difference of the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account minus the volume of gas delivered to the Customer's Point of Delivery divided by the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account.

(c) Cash out of Monthly Imbalances

1. If the volume of gas delivered to the Customer's point of delivery is greater than the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account (negative imbalance), the Company will sell the difference in gas volumes to the Customer based on the highest index price for the respective Connecting Pipeline Company for any week beginning in the calendar month as published in *Natural Gas Week*, plus applicable pipeline fuel and transportation charges. If the volume of gas delivered to the Customer's point of delivery is less than the volume of gas received by the Company from the Connecting Pipeline Company for the Customer's account (positive imbalance), the Company will buy the difference in gas volumes from the Customer based on a price equal to the lowest index price for the respective Connecting Pipeline Company for any week beginning in the calendar month as published in *Natural Gas Week*, plus applicable pipeline fuel and transportation charges.

2. The monthly cash out will be based on the accumulated sum of the results of the formulas listed below such that and until the total monthly imbalance is fully accounted for:

Cash out Price		
% of Imbalance	For Positive Imbalances	For Negative Imbalances
0% up to 5%	100%	100%
5% up to 10%	85%	115%
10% up to 15%	70%	130%
15% up to 20%	60%	140%
20% and over	50%	150%

~~(d)~~ ~~Daily Scheduling Fees~~

~~The Company may assess a daily scheduling fee for any daily transportation imbalance in excess of 10% of the Customer's daily confirmed nomination. The fee will be calculated as follows:~~

~~([annual storage demand charges / MDWQ] / 365) + (annual storage capacity charges / total capacity) + average injection and withdrawal costs~~

~~Costs for all storages used in providing for balancing will be included.~~

~~Customers' agents shall be allowed to aggregate their customers' usages and the daily scheduling fee will be applied to the aggregated volume of the pool, pursuant to the Pooling Service in Section E.~~

(e) Operational Flow Orders (OFO)

1. Company will have the right to issue an Operational Flow Order that will require actions by the Customer to alleviate conditions that, in the sole judgment of the Company, jeopardize the operational integrity of the Company's system required to maintain system reliability. Customer shall be responsible for complying with the directives set forth in the OFO.

2. Upon issuance of an OFO, the Company will direct Customer to comply with one of the following conditions:

   a. Customer must take delivery of an amount of natural gas from the Company that is no more than the hourly or daily amount being received by the Company from the Connecting Pipeline Company for the Customer's account. All volumes delivered to the Customer in excess of volumes received by the Company from the Connecting Pipeline Company for the Customer's account, that are in violation of the above condition, with the exception of a 5% daily tolerance, shall constitute an unauthorized overrun by Customer on the Company's system. Customer shall be charged a penalty of ~~$25.00~~ $5.00 per dth, plus the Gas Daily Index price for the respective Connecting Pipeline Company for such unauthorized overruns during the OFO, or

   b. Customer must take delivery of an amount of natural gas from the Company that is no less than the hourly or daily amount being received by the Company from the Connecting Pipeline Company for the Customer's account. All volumes delivered to the Customer which are less than volumes received b y the Company from the Connecting Pipeline Company for the Customer's account that are in violation of the above condition, with the exception of a 5% daily tolerance shall constitute an unauthorized delivery by Customer to Company. Customer shall be charged a penalty of ~~$25.00~~ $5.00 per dth for such unauthorized deliveries to the Company's system.

   c. Company may increase the penalty for an unauthorized overrun or an unauthorized delivery up to the penalty levied by the Connecting Pipeline Company, if the Customer's failure to comply with the OFO caused the Company to incur a higher penalty.

   d. Company will waive associated penalties for an unauthorized overrun when Company elects to continue providing interruptible sales service to Rate Schedule 250 customers during the OFO period, and no penalty is received by the Company from the Connecting Pipeline Company. Company will waive penalties for an unauthorized delivery if Company does not first incur a penalty from the Connecting Pipeline Company.

3. Any penalties charged due to unauthorized overruns or deliveries during an OFO will be in addition to any cash out charges described in Subsection C(v)(c) above.

~~(f) The Company may charge the Customer for any daily or monthly overrun penalties assessed to the Company, which are applicable to the Customer, by the Connecting Pipeline Company.~~

(g) Customers' agents shall be allowed to aggregate their customers' usages for the purposes of balancing, pursuant to the Pooling Service in Section E.

(vi) A percentage adjustment for lost and unaccounted for gas shall be made to the volumes of gas received by the Company from the Connecting Pipeline Company for the Customer's account, and the volumes of gas deliverable to the Customer under this rate schedule shall be reduced by such percentage. Such percentage shall be equal to the percent that unaccounted-for gas bore to total sendout as recorded by the Company during its most recent 12 months ended June multiplied by the TAF.

(vii) If the rendition of service to Customer under this rate schedule causes the Company to incur additional charges from the Connecting Pipeline Company, Customer shall reimburse Company for all such charges.

(viii) All volumes transported under the terms of this rate schedule shall be included in the Purchased Gas Adjustment computations and included in the sales volumes of the Purchased Gas Adjustment computations.

(ix) The Customers served under this Rate Schedule shall be required to pay for the cost of, installation of, replacement of, and maintenance of measurement data collection and verification equipment including applicable income taxes. Customers shall also be required to pay the cost of installation, maintenance and any monthly usage charges associated with dedicated telephone, power or other utilities or energy sources required for the operation of the data collection and verification equipment, including applicable income taxes. Customers shall also be required to provide adequate space in new or existing facilities for the installation of the data collection equipment.

(x) Once a customer elects and has qualified for service under this rate schedule, all services will be provided under the terms and conditions of this rate schedule for a term of no less than 12 months. At any time following the first six months of service under this rate schedule, service may be terminated by either party following at least six months written notice to the other party. After termination of this service, Customer may not re-elect for transportation service for a period of no less that 12 months after termination.

D. Rate

Customer Charge

A monthly customer charge of $310.00 per meter is payable regardless of the usage of gas.

Monthly Demand Charge

The Customers eligible to receive service under companion Rate Schedule 240 shall be billed the applicable Monthly Demand Charge.

Monthly Rate

The Customer shall be billed for the quantity of gas delivered under this rate schedule at the monthly rate of the companion rate schedule, plus any applicable taxes or fees.

Minimum Bill

The minimum Monthly bill shall be the Customer Charge plus the Monthly Demand Charge, if any, as described above.

E. Pooling Service

(i) For the purposes of this section, a Pool Manager is defined as an entity which has been appointed by a customer or group of customers served under this rate schedule to perform the functions and responsibilities of requesting information, nominating supply, and other related duties. The Pool Manager shall have all of the rights under this Transportation Service as does a Customer transporting gas supply directly under this Transportation Service.

(ii) The Pool Manager will be responsible for arranging for volumes of transportation gas to meet the daily and monthly requirements of customers in the pool. The cash out provisions and daily scheduling provisions of Subsection C(v) shall be applied against the aggregate volume of all customers in a specific pool. The Pool Manager will be responsible for the payment of any monthly cash out payments, scheduling fees and any penalties incurred by a specific pool as a result of monthly, daily, or hourly imbalances.

(iii) The Company, at the Company's sole discretion, shall establish pooling areas by Connecting Pipeline, Pipeline zone, Company receipt point, geographic area, operational area, administrative or other appropriate parameters. Such pooling areas shall be consistent with the pooling areas contained in the tariff of the Connecting Pipeline Company.

(iv) No customer shall participate in a Pool that does not individually meet the availability conditions of this rate schedule, and no customer shall participate in more than one pool concurrently.

(v) To receive service hereunder, the Pool Manager shall enter into a Pool Management Agreement with Company and shall submit an Agency Authorization Form for each member of the pool, signed by both Customer and its Pool Manager.

(vi) The Pool Manager shall submit a signed Pool Management Agreement and an Agency Authorization Form for each member of the pool at least 30 days prior to the beginning of a billing period when service under this rate schedule shall commence. A customer who terminates service under this rate schedule or who desires to change Pool Managers shall likewise provide Company with a written notice at least 30 days prior to the end of a billing period.

(vii) The Pool Manager shall upon request of the Company agree to maintain a cash deposit, a surety bond, an irrevocable letter of credit, or such other financial instrument satisfactory to Company in order to assure the Pool Manager's performance of its obligations under the Pool Management Agreement. In determining the level of the deposit, bond or other surety to be required of the Pool Manager, the Company shall consider such factors, including, but not limited to, the following: the volume of natural gas to be transported on behalf of the Pool members, the general credit worthiness of the Pool Manager, and the Pool Manager's prior credit record with the Company, if any. In the event that the Pool Manager defaults on its obligations under this rate schedule or the Pool Management Agreement, the Company shall have the right to use such cash deposit, or proceeds from such bond, irrevocable letter of credit, or other financial instrument to satisfy the Pool Manager's obligation hereunder. Specific terms and conditions regarding credit requirements shall be included in the Pool Management Agreement. Such credit requirements shall be administered by the Company in a non-discriminatory manner, and such credit requirements may change as the requirements of the pool change.

(viii) The Pool Manager shall notify the Company in writing of any changes in the composition of the pool at least 30 days prior to the beginning of the first billing period that would apply to the modified pool.

(ix) The Pool Management Agreement will be terminated by the Company upon 30 days written notice if a Pool Manager fails to meet any condition of this rate schedule. The Pool Management agreement will also be terminated by the Company upon 30 days written notice if the Pool Manager has payments in arrears. Written notice of termination of the Pool Management Agreement shall be provided both to the Pool Manager and to the individual members of the pool by the Company.

(x) Company shall directly bill the Pool Manager for the monthly cash out charges, penalties, or other payments contained in this rate schedule. The monthly bill will be due and payable on the date it is issued. A charge of five percent (5%) may be added to the amount of any bill remaining unpaid at the close of the first business day after fifteen (15) days following such date of issue.

(xi) Company shall directly bill the individual customers in the pool for all Customer Charges, Demand Charges, and Commodity Charges as provided for in either this rate schedule or its companion rate schedule.

Atmos Energy Corp - Tennessee Distribution System
Comparison of AIG and Company Shrinkage Proposals

Exhibit AIG-2
Schedule 1

Line No.	Description	COMPANY PROPOSAL Rate Case Volumes Amount (Ccf)	Percentage	AIG PROPOSAL Rate Case Margin Amount	Percentage
1	Residential	72,566,845	33.51%	$25,328,046	51.28%
2	Commercial	50,825,431	23.47%	15,312,003	31.00%
3	Industrial	21,499,753	9.93%	2,917,446	5.91%
4	Public Authority	1,308,815	0.60%	220,752	0.45%
5	Transportation	70,376,801	32.49%	5,617,250	11.37%
6	**Total Throughput**	216,577,645	100.00%	$49,395,496	100.00%
	Shrinkage Calculation for the 12 Months Ended June 30th				
7	Assume Shrinkage = 2% of Total Throughput Volumes	4,331,553	2.00%		
8	**Transportation Allocation**	1,407,536	32.49%	492,584	11.37%
	Transportation Shrinkage as a Percentage of Transportation Throughput				
9	Transportation Allocation of Shrinkage		1,407,536		492,584
10	Total Transportation Throughput		70,376,801		70,376,801
11	Transportation Shrinkage as a Percentage of Transportation Throughput		2.00%		0.70%

Rate Case Source Data: AIG-2, Schedule 2.

Atmos Energy Corp - Tennessee Distribution System
Summary of Settlement Billing Determinants & Margin in Docket 07-00105
Actual Twelve Months Ended May 31, 2007 and Attrition Period Twelve Months Ended October 31, 2008

Exhibit AIG-2
Schedule 2

Line No.	Description	Pro Forma Bills	Pro Forma Ccf Volumes	Settlement Margin Rev
1	Residential	1,366,214	72,566,845	$25,328,046
2	Commercial	184,657	50,825,431	15,312,003
3	Industrial	4,250	21,499,753	2,917,446
4	Public Authority	6,002	1,308,815	220,752
5	Transportation	1,116	70,376,801	5,617,250
6	Total Throughput	1,562,238	216,577,645	$49,395,496
7	Forfeited Discount			1,433,015
8	Miscellaneous Service charges			553,035
9	TOTAL MARGIN REVENUES			$51,381,546

General Interruptible Service (continued) **Rate I-22**

3.4 Lost and Unaccounted-for Natural Gas

A percentage adjustment of 0.8% for unaccounted-for gas shall be made to the volumes of Customer-owned gas delivered into the Company's facilities on a daily basis for the Customer's account and the volumes of gas delivered to the Customer on a daily basis shall be increased by such percentage.

4. Minimum Monthly Bill For Service

The minimum monthly bill for service under this schedule shall be the monthly basic customer charge.

5. Additional Terms and Provisions

Service under this schedule is subject to the Tariff, including the Terms of Service and Rules and Regulations of the Company, as filed with and approved by the Commission from time to time, as well as all future Riders and tariff provisions made applicable to service under this schedule by the Commission from time to time, including without limitation, the Load Control Provisions.