BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 3, 2007

IN RE:)	
)	
ATMOS ENERGY CORPORATION'S TARIFF)	DOCKET NO.
FILING TO MODIFY AND ADD LANGUAGE)	07-00020
REGARDING TRANSPORTATION SERVICE)	
(TARIFF NO. 2007-0021))	

RECOMMENDATION OF THE HEARING OFFICER REGARDING CONVENING A CONTESTED CASE PROCEEDING

The Hearing Officer presents this recommendation to the Authority Panel for consideration at the July 9, 2007 Tennessee Regulatory Authority ("Authority" or "TRA") Conference or at such other time as deemed appropriate. The issues discussed herein came before the Hearing Officer as a result of a tariff filed by Atmos Energy Corporation ("Atmos" or "Company") to modify and add language regarding transportation service and the subsequent complaints and petitions to intervene filed by Atmos Intervention Group ("AIG"), SouthStar Energy Services, LLC d/b/a Georgia Natural Gas ("SouthStar"), Stand Energy Corporation ('Stand"), and the Consumer Advocate and Protection Division of the Office of the Attorney General ("Consumer Advocate" or "CAPD") (collectively, "Complainants").

I. PROCEDURAL HISTORY

On January 10, 2007, Atmos filed a tariff filing to modify and add language regarding transportation service. Subsequently, the Tennessee Regulatory Authority Staff ("TRA Staff") informed Atmos that transportation customers and marketers that were to be affected by the changes in the revised tariff needed to be formally notified. As a result, on January 26, 2007,

Atmos filed a request to postpone the effective date of the tariff changes from February 9, 2007 to April 1, 2007 to allow time to notify its customers of the proposed tariff changes.

The TRA submitted a data request to Atmos on January 26, 2007. Atmos filed its responses on February 5, 2007. On February 21, 2007, Atmos filed the customer notification letter in this docket with the TRA which notified customers of the changes to the transportation tariff. On March 20, 2007, AIG filed a response to Atmos' tariff filing. Among other issues, AIG raised concerns about the lack of evidence that was presented in the filing and the lack of evidence in the record concerning the proposed changes to support the revised tariff. AIG also claimed that the changes to the tariff would likely result in higher charges to Atmos' transportation customers.

On March 21, 2007, AIG filed a *Petition to Intervene* in this docket.⁴ AIG stated that it is an informal group of large customers that purchase gas and/or gas transportation services from Atmos and that the legal rights, duties, privileges, immunities or other legal interests of AIG's members may be affected or determined in this docket because AIG members purchase natural gas or gas transportation services from Atmos.⁵

On March 26, 2007, this matter came before Chairman Sara Kyle, Director Eddie Roberson and Director Ron Jones, the voting panel assigned to this docket, at a regularly scheduled Authority Conference for consideration of the tariff filed by Atmos on January 10, 2007. During the Authority Conference, the panel voted unanimously to suspend the proposed tariff through May 1, 2007. The panel also voted unanimously to allow any entity to file a complaint with the Authority in accordance with TRA Rule 1220-1-2-.02(4) and required that

¹ Response of Atmos Intervention Group to Atmos Tariff Filing, (March 20, 2007).

² *Id*. at 1.

³ Id

⁴ Petition to Intervene of Atmos Intervention Group, (March 21, 2007).

⁵ *Id.* at p. 1.

such complaint should state the nature of the interest of the entity, the grounds for any objection to the tariff, and the relief sought by the entity. Additionally, such filing was to be accompanied by documentation and calculations supporting the complaint. Further, the panel determined that if AIG wanted the panel to take administrative notice of the evidentiary record presented in Docket No. 05-00258, ⁶ it must reference the specific evidence relating to this tariff in its request and stated that this tariff filing was not part of or consolidated with Authority Docket No. 05-00258. Finally, the panel stated that the filing of the complaints in this docket should be in accordance with TRA Rule 1220-1-2-.02(4)⁷ and that any responses to complaints should be filed by April 9, 2007. Lastly, the panel voted to appoint the Authority's General Counsel or his designee to act as the Hearing Officer in this docket to consider the filings and make a recommendation to the panel whether a contested case proceeding should be convened and, if necessary, to modify the filing dates.⁸

On March 26, 2007, SouthStar filed a *Petition to Intervene* in this docket. SouthStar is a shipper of natural gas providing transportation services to a number of Atmos' customers pursuant to the transportation service tariff filed in this docket. SouthStar averred in its filing that this docket will address the terms and conditions under which SouthStar provides natural gas or gas transportation services. ¹⁰

On April 2, 2007, AIG filed a *Complaint* against Atmos. AIG states that since the tariff will effectively increase rates paid by transportation customers, a contested case proceeding is warranted. SouthStar also filed a *Complaint* against Atmos on April 2, 2007 alleging that the

⁶ See In re: Petition of the Consumer Advocate to Open an Investigation to Determine Whether Atmos Energy Corp. Should Be Required by the Tennessee Regulatory Authority to Appear and Show Cause that Atmos Energy Corp. is not Overearning in Violation of Tennessee Law and that It is Charging Rates that are Just and Reasonable, Docket No. 05-00258.

⁷ A complaint opposing the tariff shall be filed no later than seven (7) days prior to the Authority Conference immediately preceding the proposed effective date of the tariff.

⁸ See Order Suspending Tariff and Appointing Hearing Officer (May 30, 2007)

⁹ Petition to Intervene of SouthStar Energy Services LLC d/b/a Georgia Natural Gas (April 2, 2007).

proposed changes to the tariff will adversely affect the terms and conditions under which SouthStar and other non-affiliated pool managers utilize gas transportation services since it will result in a rate increase to customers without cost justification.¹¹

On April 3, 2007, Stand filed a *Petition to Intervene*. ¹² Stand is an independent marketer of retail energy, including natural gas. In Stand's *Petition to Intervene*, it requests that the Authority grant intervention in this docket since Stand competes with Atmos and/or its affiliate, Atmos Energy Marketing ("AEM") in Ohio, Virginia, Kentucky and Tennessee. ¹³ Stand alleges that the tariff of Atmos affects the competitive environment for an independent marketer such as Stand. ¹⁴ On April 9, 2007, Atmos filed its responses to AIG, Southstar, and Stand. On April 30, 2007, the Hearing Officer entered an *Order Re-suspending Tariff Changes Through June 15, 2007*. On May 14, 2007, Stand filed its reply to *Atmos' Response to the Petition to Intervene of Stand Energy.* In its response, Stand also includes additional information constituting a complaint regarding Atmos' transportation tariff and states that it alternatively considers its *Petition to Intervene* as a complaint under TRA Rule 1220-1-2-.02. ¹⁵ Stand states that it is a limited agent of Harrison Construction, a transportation customer of Atmos, in connection with Harrison's natural gas consumption at its facilities. ¹⁶

On June 14, 2007, the Hearing Officer entered an *Order Re-suspending Tariff Changes* through July 16, 2007. On June 26, 2007, the Consumer Advocate filed its *Petition to Intervene*. Also on June 26, 2007, the Consumer Advocate filed a *Motion to Consolidate Dockets* in this

¹⁰ Id at p 1

Complaint of Proposed Intervenor SouthStar Energy Services LLC d/b/a Georgia Natural Gas, p. 2 (April 2, 2007).

¹² Petition to Intervene of Stand Energy Corporation (April 2, 2007).

Petition to Intervene of Stand Energy Corporation, p. 1 (April 2, 2007).

¹⁴ I.A

Stand Energy Corporation's Reply to Atmos Energy Corporation's Response to Petition to Intervene of Stand Energy's Corporation and Complaint of Stand Energy Corporation, p. 4 (May 14, 2007).
 Id. at 3.

docket and in Docket Nos. 07-00081 and 07-00105. On June 28, 2007, Atmos filed a *Motion for Additional Time to Respond to Motion to Consolidate*. On July 2, 2007, an *Order Granting Motion for Extension of Time to Respond to CAD's Motion to Consolidate Dockets* was entered by the Hearing Officer. Atmos was allowed until Friday, July 6, 2007 to file its response in all three dockets.

II. POSITIONS OF THE COMPLAINING PARTIES

A. Atmos Intervention Group ("AIG")

On March 20, 2007, AIG filed a response to the tariff filing. AIG claims that Atmos' witness, Patricia Childers, did not present any evidence concerning the proposed changes to the transportation tariffs or otherwise explain why the changes to the transportation tariff were needed and that there was no evidence in the record to support the revised tariffs. AIG also claimed that the changes to the transportation tariff will likely result in higher charges to transportation customers. AIG asks that the TRA reject the changes to Atmos' tariff because there is an absence of evidence to support the rate increase. Finally, AIG suggests that the Company present the changes in the rate case filed by Atmos. AIG asks that the panel take administrative notice of Docket No. 05-00258.

On April 2, 2007, AIG filed a *Complaint* against Atmos in this docket. The *Complaint* states that the proposed tariff creates a new "daily scheduling fee" which allows Atmos to impose a fee upon transportation customers that are taking more or less gas on a daily basis than the customer has ordered and no other regulated gas company in Tennessee charges a daily scheduling fee.¹⁸ Additionally, AIG claims that Atmos has proposed a new \$25 per dekatherm charge that transportation customers must pay for taking more or less gas on an hourly or daily

¹⁷ The Consumer Advocate is seeking consolidation of Docket Nos. 07-00020, 07-00081, and 07-00105.

¹⁸ Complaint of Atmos Intervention Group Against Atmos Energy Corporation, p. 1 (April 2, 2007).

basis in violation of the Operational Flow Order ("OFO") issued by the Company. As a result, AIG states that it is not possible for transportation customers to avoid occasional imbalances during "hourly or daily" period and these customers will be assessed additional fees and penalties under this tariff. AIG states that since the tariff proposal will effectively increase rates paid by transportation customers, a contested case proceeding is warranted. AIG also asserts that the Company has failed to file a brief explanation of the character of and reason for the proposed changes as required by TRA Rule 1220-4-1-.06 and has not published a notice of the proposed change as required by TRA Rule 1220-4-1-.05(1). AIG asks that the TRA reject the proposed daily balance fee and associated penalties or convene a contested case proceeding to consider whether the proposals by the Company in this tariff filing are just and reasonable. 22

B. SouthStar Energy Services LLC ("SouthStar")

On March 26, 2007, SouthStar filed a *Petition to Intervene* in this docket. SouthStar is a shipper of natural gas providing transportation services to a number of Atmos Energy's customers pursuant to the Transportation Service Tariff that is the subject of this proceeding. SouthStar states that this docket will address the terms and conditions under which SouthStar provides natural gas or gas transportation services.²³

On April 2, 2007, SouthStar filed a *Complaint* in this docket. SouthStar states that it competes with various entities including Atmos Energy's affiliate, Atmos Energy Marketing, LLC.²⁴ SouthStar claims that it provides services under the transportation service tariff and that Atmos' proposed changes will adversely affect the terms and conditions under which SouthStar and other non-affiliated pool managers use gas transportation services since the revised tariff will

¹⁹ *Id*.

²⁰ *Id*. at 2

²¹ Complaint of Atmos Intervention Group Against Atmos Energy Corporation, p. 3 (April 2, 2007).

²² Id. at 3.

²³ Petition to Intervene of SouthStar Energy Services LLC d/b/a Georgia Natural Gas, p. 1 (March 26, 2007).

result in rate increase to SouthStar and other non-affiliated pool managers' customers without a cost justification.²⁵ SouthStar further alleges that the proposed changes to the tariff will result in unfair rate discrimination by Atmos and its affiliate Atmos Energy Marketing and this constitutes a violation of Tennessee law and the Tennessee Guidelines for United Cities Gas Company's Affiliate Transactions.²⁶ SouthStar requests that the Authority reject Atmos' proposed revisions to the Transportation Service Tariff or, alternatively, require the deletion or modification of the daily balance fee, monthly cash out, and OFO penalty provisions.²⁷

C. Stand Energy Corporation ("Stand")

In Stand's *Petition to Intervene*, it requests that the Authority grant intervention in this docket because Stand competes with Atmos and/or its affiliate, Atmos Energy Marketing in Ohio, Virginia, Kentucky and Tennessee. Stand alleges that the tariff of Atmos affects the competitive environment for an independent market such as Stand Energy.

On May 14, 2007, Stand filed a reply to Atmos' response to its petition to intervene. Stand included additional information that constituted a complaint in this docket under TRA Rule 1220-1-2-.02. Stand stated that its petition was not untimely and that it did not have any notice of such ruling by Authority concerning filing deadlines for interested persons in this docket inasmuch as Stand was not present at the March 26, 2007 Authority Conference and the minutes to the Authority Conference were not available at the time its Petition to Intervene was filed. Nevertheless, Stand states that Tenn. Code Ann. § 4-5-310(a) allows intervention of right if the petition to intervene is filed at least seven days before the hearing and states that it has timely

²⁴ *Id.* at 2.

 $^{^{25}}$ \overline{Id} .

²⁶ Id.

²⁷ *Id.* at 8.

filed its Complaint under the statutory standard.²⁸

Stand further stated that it has a sufficient legal interest in this docket as an independent marker of retail energy; including natural gas and that it is also an agent for Harrison Construction in connection with its natural gas consumption at its facilities in Tennessee.²⁹ Stand attached a Limited Appointment of Agent signed by the Vice President of Harrison Construction. Harrison Construction is a transportation customer of Atmos and will be affected by the transportation tariff that is the subject of this docket.³⁰ Stand asks that the TRA remove the daily scheduling fee from the tariff, or in the alternative, remove the discretionary language from the tariff and the substitution of mandatory language applicable to all shippers on the Atmos Tennessee distribution system.³¹ Stand also that the TRA grant its petition to intervene or consider its petition as a Complaint under TRA Rule 1220-1-2-.02.³²

D. Consumer Advocate and Protection Division ("Consumer Advocate")

On June 26, 2007, the Consumer Advocate filed a *Petition to* Intervene in this docket. The Consumer Advocate states that it is authorized by Tenn. Code Ann. § 65-4-118 to intervene in this docket on behalf of the public interest since there are issues that will affect the interest of Tennessee consumers in this docket. Furthermore, the Consumer Advocate states that the natural gas transportation issues raised by the tariff filing in this docket affect the interests of Tennessee consumers. The Consumer Advocate asserts that Tennessee consumers have an interest in the establishment and preservation of a fair system to handle natural gas transportation, imbalances, penalties, and other issues implicated by the tariff.³³ The Consumer Advocate requests that the

²⁸ Stand Energy Corporation's Reply to Atmos Energy Corporation's Response to Petition to Intervene of Stand Energy's Corporation and Complaint of Stand Energy Corporation, p. 2 (May 14, 2007).

 $[\]frac{29}{30}$ *Id.* at 3.

³⁰ *Id*.

³¹ *Id*. at 4.

³² *Id.* at 4.

³³ Consumer Advocate's Petition to Intervene, p. 1 (June 26, 2007).

TRA grant its petition and allow it to intervene in this docket.³⁴

III. RESPONSES OF ATMOS ENERGY CORPORATION TO COMPLAINANTS

A. Atmos's Response to Stand Energy Corporation

Atmos states that Stand failed to file its pleading by April 2, 2007 as required by the panel during the regularly scheduled Authority Conference on March 26, 2007. Moreover, Atmos states that Stand did not state any specific objection to the tariffs proposed in the docket and its petition to intervene should be denied because it is insufficient and untimely. Further, Atmos asserts that granting of such petition would impair the interest of justice, and the orderly and prompt conduct of these proceedings.³⁵ Additionally, Atmos states that Stand does not have standing to challenge the tariff revisions that will apply only to Atmos' transportation customers. Atmos claims that Stand is not a customer of Atmos and Atmos has no obligation to serve Stand.

B. Atmos's Response to SouthStar

Atmos states that SouthStar is a third-party marketer and procures natural gas for transportation customers behind Atmos' city gate. According to Atmos, SouthStar is not a customer of Atmos and is not directly affected by the tariff changes proposed by Atmos. Atmos states that it has no obligation to provide service to third-party marketers of natural gas.³⁶ Also, Atmos states that although SouthStar claims that it is a pool manager, there are no pooling provisions available under Atmos' existing transportation tariff and SouthStar cannot claim a right to intervene.

Atmos further states that allegations by SouthStar concerning AEM's exemption from the provisions of the new transportation tariff such as daily scheduling fees, monthly cash-outs and operational flow order (OFO) penalties are not correct because AEM will be subject to the

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³⁴ *Id.* at 2.

³⁵ Atmos Energy Corporation's Response to Petition to Intervene of Stand Energy Corporation, p. 1 (April 9, 2007).

provisions of the new transportation tariff. Atmos claims that there will be equal treatment for all marketers who desire to serve as pool managers for transportation customers behind Atmos' city gate.³⁷

C. Atmos's Response to Atmos Intervention Group

Atmos states that the allegations of AIG are incorrect and its objections are baseless. Atmos states that the proposed tariff change will not result in any additional revenue to the Company that the proposed revisions will impact the payment of gas costs only and the revisions will not change the base rates. Atmos claims that requirements that base rates be set by contested case and noticed in the newspaper under TRA rules are inapplicable in this docket.³⁸ Atmos states that the tariff change will not result in any additional revenue to the Company and will impact the payment of gas costs only and will not change base rates.³⁹ As a result, Atmos claims that this docket is not a request for a general base rate increase and the requirements that base rates be set by a contested case and noticed in the newspaper do not apply to this docket.⁴⁰

IV. ANALYSIS AND RECOMMENDATIONS

The TRA has jurisdiction over Atmos Energy Corporation. Atmos is a public utility as defined under Tenn. Code Ann. §65-4-101(6).⁴¹ Tenn. Code Ann. § 65-4-104 charges the TRA with "general supervisory and regulatory power, jurisdiction, and control over all public utilities." As such, Atmos' public utility operations within Tennessee are subject to the

Atmos Energy Corporation's Response to Complaint of SouthStar Energy Services LLC d/b/a Georgia Natural Gas, p. 4 (April 9, 2007).

Id. at 5.
 Atmos Energy Corporation's Response to Complaint of Atmos Intervention Group, p. 11 (April 9, 2007).
 Id. at 11.

⁴⁰ *Id*.

⁴¹ "Public utility" means every individual, copartnership, association, corporation, or joint stock company, its lessees, trustees, or receivers, appointed by any court whatsoever, that own, operate, manage or control, within the state, any interurban electric railway, traction company, all other common carriers, express, gas, electric light, heat, power, water, telephone, telegraph, telecommunications services, or any other like system, plant or equipment, affected by and dedicated to the public use, under privileges, franchises, licenses, or agreements, granted by the state or by any political subdivision thereof.

jurisdiction of the TRA. Therefore, the TRA has subject matter jurisdiction in this docket.

By statute, the TRA has the authority to suspend the proposed tariff and determine whether a contested case⁴² proceeding should be convened in this docket. Pursuant to Tenn. Code Ann. §65-5-101(c)(3) and TRA Rule 1220-4-1-.06(5), the Authority may suspend a proposed tariff pending its decision regarding the need for a contested case proceeding. Nevertheless, TRA Rule 1220-1-2-.02(4) states that a tariff filing does not constitute a contested case proceeding. Also, the rule provides that any interested person may object to the tariff by filing a complaint and the company filing the tariff shall have the right to respond to such complaint.

It is well established that the TRA has discretion in determining whether to convene a contested case. Tenn. Code Ann. § 65-5-103 grants the Authority the power either upon written complaint, or upon its own initiative, to hear and determine whether an increase in rates, change or alteration of any existing classification is just and reasonable. TRA Rule 1220-1-2-.02(1) provides that the Authority may commence a contested case at any time with respect to any matter within its jurisdiction. Furthermore, the Uniform Administrative Procedures Act also grants discretionary authority to the TRA to convene a contested case proceeding.

The TRA has discretionary authority to convene a contested case proceeding when a tariff is filed with the Authority. In Office of the Attorney General v. Tennessee Regulatory

⁴² Tenn. Code Ann. § 65-2-101(2) defines the term contested case.

⁴³ Consumer Advocate v. Greer, 967 S.W. 2d 759, 763 (Tenn. 1998).

Tenn. Code Ann. § 4-5-102(3) "Contested case" means a proceeding, including a declaratory proceeding, in which the legal rights, duties or privileges of a party are required by any statute or constitutional provision to be determined by an agency after an opportunity for a hearing. Such proceeding may include rate making; price fixing; granting of certificates of convenience and necessity; the making, review or equalization of tax assessments; the granting or denial of licenses, permits or franchises where the licensing board is not required to grant the licenses, permits or franchises upon the payment of a fee or the finding of certain clearly defined criteria; and suspensions of, revocations of, and refusals to renew licenses. An agency may commence a contested case at any time with respect to a matter within the agency's jurisdiction;

Authority, 45 the Court stated that the TRA has discretionary authority to decide whether a Complaint filed with the TRA raises legal or factual issues that require a contested case proceeding or whether a tariff should be permitted to go into effect. In that case, the central issue was whether the TRA acted properly in allowing a tariff to go into effect without first opening a contested case proceeding to address the complaints of the parties. The Court held that the Authority abused its discretion when it declined to grant a contested case hearing regarding the challenges made to a tariff.

In the current docket, the parties seeking intervention have raised disputed factual issues concerning Atmos's provision of its gas to transportation consumers, costs and penalties, and the application of the transportation tariff with Atmos Energy Marketing. Moreover, the parties have alleged that the changes to the transportation tariffs may impact their legal interests. The issues raised in this docket require fact-specific determinations involving the rates paid by Atmos customers.

Based upon a review of the filings in this docket, the Hearing Officer is of the opinion that this case raises factual and policy issues that should be resolved by the Authority in the context of a contested case proceeding. The factual issues raised by the Complaints filed in this docket warrant allowing the parties an opportunity to present their positions and address the issues in a contested case proceeding.

In Attorney General v. Tennessee Regulatory Authority, the Court of Appeals of Tennessee recognized that certain factual and policy issues could not be decided without a contested case proceeding. ⁴⁶ There are several considerations that weigh heavily in favor of proceeding in this docket with a contested case. First, there are factual issues concerning the details of the

⁴⁵ No. M2003-01363-COA-R12-CV, 2005 WL 3193684 , (Tenn. Ct. App. Nov. 29, 2005) citing Consumer Advocate v. Greer, 967 S.W. 2d at 763.

⁴⁶ No. M2003-01363-COA-R12-CV, 2005 WL 3193684, at *11 (Tenn. Ct. App. Nov. 29, 2005).

transportation tariff that have been raised by the Complainants. Second, there are several areas of disagreement about the transportation tariff between Atmos and the various parties in this docket.

As a practical matter, the complaints by the parties need to be properly considered by the TRA in the course of its review and evaluation of this tariff filing by Atmos. Lastly, the number of Complainants in this docket and the issues raised by each is indicative that there are contested issues in this docket that support the need for a contested case proceeding.⁴⁷

Based on an analysis of relevant statutes, TRA rules, case law and the filings by the parties in this docket, the Hearing Officer recommends that the Authority convene a contested case proceeding in this docket so that interested persons can be afforded the opportunity to address the issues regarding the transportation tariff.

Finally, the tariff has been suspended until July 16, 2007. In the event that the panel accepts this recommendation and convenes a contested case in this docket, it will be necessary for the panel further suspend the tariff in this docket. The Hearing Officer recommends that the tariff filing be suspended through October 1, 2007 to allow for a contested case to be convened and to enable the Authority to complete its investigation and make its decision with respect to any tariff changes in this docket. 48

IT IS THEREFORE RECOMMENDED:

- The TRA panel assigned to this docket convene a contested case proceeding in 1. this docket; and.
 - The tariff in this docket should be re-suspended until October 1, 2007. 2.

As Hearing Officer

To date, there are four intervenors in this docket. Tenn. Code Ann. § 65-5-103(a).