

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**IN RE:**

**PETITION OF ATMOS ENERGY )  
CORPORATION FOR APPROVAL OF )  
ADJUSTMENT OF ITS RATES AND )  
REVISED TARIFF )**

**DOCKET NO. 07-00105**

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**REBUTTAL TESTIMONY OF PATRICIA J. CHILDERS  
ON BEHALF OF ATMOS ENERGY CORPORATION  
IN RESPONSE TO AIG'S SUPPLEMENTAL EXHIBIT**

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**I. POSITION AND QUALIFICATIONS**

**Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

A. My name is Patricia J. Childers. I am Vice President – Rates and Regulatory Affairs of the Kentucky/Mid-States Division of Atmos Energy Corporation. .

**Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

A. Yes, I have already filed direct and rebuttal testimony in this case.

**Q. WHY ARE YOU FILING ADDITIONAL REBUTTAL TESTIMONY?**

A. The Company was granted the opportunity to file additional testimony by the Tennessee Regulatory Authority (the "Authority") in response to the late filed supplemental exhibit of the Atmos Intervention Group (AIG).

**II. PURPOSE OF TESTIMONY**

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to discuss the Company's view of declining block rates for commercial and industrial customers, as well as its experience with this type of rate

1 structure in its other jurisdictions. I will also explain why there is not enough time prior  
2 to the implementation of the Company's adjusted rates, effective November 19, to per-  
3 form the work and analysis necessary to ensure that a block rate design would, in fact,  
4 produce the revenue ordered by the Authority in this case, pursuant to its approval of the  
5 Company's Settlement Agreement with the Consumer Advocate.

6 **Q. WHAT IS A DECLINING BLOCK RATE RATE STRUCTURE?**

7 A. Simply put, a declining block rate structure is intended to decrease the amount a customer  
8 pays per unit of natural gas as its consumption increases. A hypothetical block rate struc-  
9 ture might look like the following:

10  
11 First 5,000 Ccf = \$.25/Ccf

12 Next 5,000 Ccf = \$.20/Ccf

13 Over 10,000 Ccf = \$.10/Ccf  
14

15 Under the scenario above, a customer who consumed 8,000 Ccf in a given month would  
16 pay \$.25/Ccf for the first 5,000 and \$.20/Ccf for the remaining 3,000. If they had used  
17 over 10,000 Ccf in that same month, then every unit beyond that threshold would have  
18 cost only \$10/Ccf.

19 **Q. IS ATMOS OPPOSED TO THIS TYPE OF RATE STRUCTURE?**

20 A. This type of rate design concept has been around for decades, and is certainly not the  
21 cutting edge rate design that the AIG has suggested to the Authority. One problem with  
22 moving to such a structure is that in order to give lower rates to a few large customers,  
23 rates end up having to be raised for many more small customers in order to make up the  
24 lost revenue. This aspect of Mr. Novak's proposal is discussed in more depth in the re-  
25 buttal testimony filed by Mr. Bertotti.

26 In addition, Atmos in several instances has moved away from declining block rates when  
27 possible because they are much more complicated to design and administer. Under the  
28 Company's currently approved rate design in Tennessee, the rates that apply to Atmos'  
29 Tennessee customers depend on their average annual consumption. In other words, lar-  
30 ger commercial and industrial customers already are paying less for their gas service than  
31 smaller commercial and industrial customers.

32 **Q. DOES ATMOS HAVE DECLINING BLOCK RATES IN OTHER STATES?**

1 A. Yes, the Company has declining block rates in over half of the states in which it operates.  
2 However, flat rates are certainly not uncommon to Atmos or other utilities and, as stated  
3 earlier, Atmos has eliminated declining block rate design for its firm sales customers in  
4 some other jurisdictions.

5 **Q. PLEASE PROVIDE EXAMPLES OF THE CURRENT SHIFT FROM BLOCK**  
6 **RATES TO FLAT RATES IN THE COMPANY'S OTHER JURISDICTIONS.**

7 A. In the Company's recent 2007 Missouri rate case (GR-2006-0387), all rate blocks were  
8 eliminated for commercial and industrial customers in favor of a flat commodity charge  
9 on all rate schedules. Missouri Staff person Anne Ross stated "I do not see any benefits  
10 from the blocked rate structure, either to the customer or the Company, and agree with  
11 the Company's proposal to eliminate that rate structure." In 2005, the Company received  
12 Commission authorization to remove the declining block rate design from all rate sched-  
13 ules in the Company's Mississippi Operations without issue. In a 2006 rate case, the  
14 Railroad Commission of Texas eliminated block rates for the Company's largest utility  
15 division, which services approximately 1.4 million customers in Texas.

16 **Q. ARE THERE OTHER COMPANY JURISDICTIONS THAT HAVE RECENTLY**  
17 **REVIEWED RATES AND RATE DESIGN?**

18 A. Yes, the Company also has flat rates for all customers classes in its Illinois, Virginia and  
19 Colorado operations as a result of rate proceedings in those states within the last 7 years.  
20 In late 2005, the Georgia PSC approved a flat commodity charge rate design for all cus-  
21 tomer classes except the for the Company's interruptible customers using over 270,000  
22 Ccf annually (which is the same as what Atmos currently has in Tennessee). The facts  
23 simply do not support AIG's assertion that the Company's rate designs are antiquated and  
24 that it needs to be dragged into the "...modern world of rate design kicking and scream-  
25 ing." The Company's rates in most of its jurisdictions have been reviewed recently, and  
26 in several jurisdictions Atmos has been granted approval to implement or maintain flat  
27 volumetric rates for its customers. Declining block rates currently effective in certain ju-  
28 risdictions in which Atmos operates, such as Kentucky, have been in place for a number  
29 of years and were not recently developed by the Company.

1 **Q. SINCE OTHER NATURAL GAS UTILITIES IN TENNESSEE HAVE DECLIN-**  
2 **ING BLOCK RATES, DOESN'T IT MAKE SENSE FOR ATMOS TO HAVE**  
3 **THEM AS WELL?**

4 A. Absolutely not. Just because some of the utilities in a state have a declining block rate  
5 structure in place for certain customer classes does not mean that all utilities have to fol-  
6 low suit. Furthermore, there are differences in the declining block structures even among  
7 the utilities who do share that type of rate design. For instance, Memphis Gas Light &  
8 Water has two rate blocks and associated volumetric rates in place for certain customers,  
9 unlike Nashville Gas and Chattanooga Gas whose rate structures have four declining  
10 blocks. In Kentucky, Louisville Gas and Electric has flat volumetric rates in place for all  
11 of its customers, while Atmos has declining block rates in effect in for its Kentucky op-  
12 erations. Atmos and its customers are unique and should be treated as such. There is no  
13 reason for this Authority to entertain the idea of declining blocks based simply on the fact  
14 that other utilities in the state have them.

15 **Q. DO YOU HAVE ANY OTHER CONCERNS ABOUT IMPLEMENTING DE-**  
16 **CLINING BLOCK RATES?**

17 A. Yes. Declining block rate designs originated in the 1940's and were predominate during  
18 the 1950's to the 1970's when supplies of natural gas were adequate and the industry fo-  
19 cus was on encouraging gas consumption. One could easily argue that in the current en-  
20 vironment of volatile natural gas prices, and with the increased emphasis the Authority  
21 and other regulatory agencies have placed on customer conservation and efficiency prac-  
22 tices, that the declining block rate design now sends the wrong message to the customer.  
23 Though the target for the energy industry's efforts to encourage conservation has gener-  
24 ally been residential and small commercial customers, putting a declining block rate de-  
25 sign in place would send conflicting messages to the customers of Atmos. Promoting en-  
26 ergy conservation to one group of customers and then financially rewarding another  
27 customer group for increased gas usage does not make good moral or business sense.

28 **Q. MR. NOVAK REFERRED TO HIS RATE DESIGN PROPOSAL AS A ZERO-**  
29 **SUM GAME. DO YOU AGREE WITH THAT ASSESSMENT?**

30 A. Yes. The net of effect of Mr. Novak's proposal is to take money from many small  
31 commercial customers and give it to a few large customers. The small customers end up

1 paying more for gas so that the large customers can pay less. As Mr. Novak acknowl-  
2 edged, there is simply no way around this. Mr. Bertotti's rebuttal testimony examines  
3 this effect in more detail.

4 **Q. IF THE AUTHORITY REQUIRED THE COMPANY TO IMPLEMENT A DE-**  
5 **CLINING BLOCK RATE STRUCTURE FOR ITS RATE SCHEDULE 220/230**  
6 **CUSTOMERS, IS THERE SUFFICIENT TIME TO REDESIGN THE RATES IN**  
7 **THIS CASE?**

8 A. No. There is not enough time for the Company to develop a declining block rate struc-  
9 ture that will ensure that the approved revenue requirement in this case will be realized.  
10 Even if the Company had a Final Order from the Authority in hand today, there is insuf-  
11 ficient time to implement a completely new rate design prior to November 19<sup>th</sup>, which is  
12 the effective date for the new rates set by this Authority in this case.

13 **Q. PLEASE EXPLAIN THE PROCESS REQUIRED TO DEVELOP A DECLINING**  
14 **BLOCK RATE STRUCTURE THAT WILL PRODUCE THE APPROVED**  
15 **REVENUE REQUIREMENT IN THIS CASE.**

16 A. Atmos has approximately 15,000 customers at issue in rate schedules 220 and 230. The  
17 natural gas usage for each of these customers would need to be evaluated for each month  
18 over a period of at least one year, which would mean analyzing approximately 185,000  
19 bills. In fact, with adequate time available, examining two years of data would yield a  
20 more accurate representation of each customer's average monthly consumption. In addi-  
21 tion, the historical usage for the vast majority (upwards of 98%) of these customers  
22 would need to be weather normalized on a monthly basis for the designated period since  
23 most of these customers' bills receive a weather normalization adjustment. This is no  
24 small task, and would take a considerable period of time to accomplish. A significant  
25 change in rate design such as this would not be proposed absent a lengthy analysis and  
26 the performance of various impact studies (this process would be new to the Company  
27 since it has not advocated declining block rate structures in several years as discussed  
28 earlier in my testimony). At this point, the Company would have to set up an entirely  
29 new rate structure in its billing system and perform a series of tests producing sample  
30 bills to ensure that the Company would be able to bill its customers accurately under the  
31 new rate design. All of these steps would need to be completed in order to give the

1 Company reasonable assurance that the rate design would achieve the revenue require-  
2 ment approved by the TRA in this case. Furthermore, these steps would need to be com-  
3 pleted within a matter of weeks in order to facilitate a smooth transition to the declining  
4 block rate design on November 19<sup>th</sup>. This is not practical or realistic given the time  
5 frame. If AIG wanted the Company to perform this type of study or provide the AIG the  
6 information to do so, this could have been requested much earlier in this proceeding, per-  
7 haps during the discovery process over three months ago.

8 **Q. WHAT WOULD HAPPEN IF THE COMPANY IMPLEMENTED DECLINING**  
9 **BLOCK RATES WITHOUT ADEQUATE STUDY?**

10 A. What could happen is that the Company could miss the approved revenue requirement.  
11 With such a significant change in rate design, it could miss the approved requirement by  
12 a wide margin (on the high side, or on the low side). If this were to occur, the Company  
13 would almost certainly end up back in front of the Authority in short order in another rate  
14 case. The last thing the Company wants to have happen is for AIG's rate design proposal  
15 to ruin all of the time, hard work, and expense the Company has invested in bringing this  
16 rate case to a resolution. Rushing into a significant rate design change without adequate  
17 study, as AIG advocates here, raises a significant risk of that happening.

18 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

19 A. Yes. I would strongly encourage the TRA to adopt the rate design agreed upon by the  
20 Company and the Consumer Advocate in this proceeding. This rate design proposes to  
21 spread the approved rate increase proportionately across all customer classes, and will  
22 provide Atmos a reasonable opportunity to achieve the approved revenue requirement.  
23 The rate design was contemplated before the Company made its request for a rate in-  
24 crease before this Authority, and is in the best interest of all its customers.

25 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

26 A. Yes.

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**VERIFICATION**

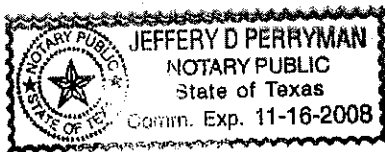
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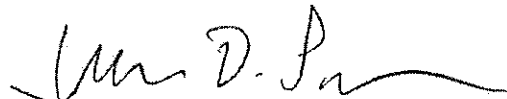
STATE OF TEXAS                    )  
                                          )  
COUNTY OF DALLAS            )

I, Patricia Childers, being first duly sworn, state that I am the Vice President, Rates and Regulatory Affairs of the Kentucky/Mid-States Division of Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Rebuttal Testimony of Patricia Childers pre-filed in this docket on the date of filing herein is true and correct to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
Patricia Childers

Sworn and subscribed before me this 17<sup>th</sup> day of October, 2007.



  
\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

### CERTIFICATE OF SERVICE

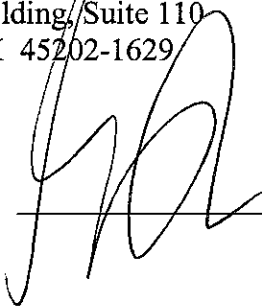
I hereby certify that a copy of the foregoing has been served, via the method(s) indicated below, on the following counsel of record, this the 11 day October 2007.

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