

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

IN RE:

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

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DOCKET NO. 07-_____

MICHAEL H. ELLIS

I. POSITION

Q. PLEASE INTRODUCE YOURSELF.

A. My name is Michael H. Ellis. I am Vice President of Marketing of the Kentucky/Mid-States Division of Atmos Energy Corporation.

II. SUMMARY

Q. WHAT SUBJECTS DO YOU PLAN TO COVER IN YOUR TESTIMONY?

A. I will testify on four basic subjects:

1. The Service Activation Charge
2. The Optional Service Tariff (Rate Schedule 250)
3. Interest Paid on Customer Deposits, and
4. The Main Extension Policy.

Q. PLEASE SUMMARIZE YOUR TESTIMONY IN EACH OF THOSE FIVE AREAS:

A. **Service Activation Charge.** Atmos should be allowed to implement a uniform service activation charge of \$40 to all rate schedules. It costs no more to turn on a meter at a residence than at a business, yet currently residential customers are charged \$40, while all

1 others are charged \$35. Customers who activate service should bear the resulting costs.
2 Residential customers should not subsidize the activation costs incurred by business cus-
3 tomers. And a uniform fee is more economical to administer.

4 **Optional Service Tariff** (Rate Schedule 250). This tariff should be renamed "Interrupti-
5 ble Sales," because this better describes the substance of the tariff and it is how the com-
6 pany and customers refer to it. Interruptible Sales customers no longer should be re-
7 quired to maintain standby facilities (designed to keep a plant operating during periods of
8 gas curtailment). Curtailments rarely occur anymore, and some of these large, sophisti-
9 cated customers have decided that the cost of standby facilities outweighs the benefit. In-
10 terruptible Sales customers should be required to pay for Measurement Data Collection
11 and Verification equipment, just as Transportation customers are required to do. Both
12 types of customers require the same daily and hourly flow measurement monitoring pro-
13 vided by this equipment.

14
15 **Interest Paid on Customer Deposits.** Atmos currently pays a fixed rate of 6% interest
16 on all customer deposits. This should be changed to a flexible rate of 1% over prime, in
17 order to track interest rate changes (increases or decreases) without the need for further
18 administrative proceedings.

19 **Atmos Main Extension Policy.** Atmos should be allowed to change its main extension
20 policy from a footage allowance based upon historical ballpark gas revenue estimates
21 (one foot of 2" gas pipe per thousand cubic foot of estimated annual gas usage) to a pol-
22 icy that better accounts for the actual cost of installing gas pipe from the main to a new
23 customer, the expected revenue from that customer, and Atmos' allowed rate of return.

1 Using a formula that more accurately reflects the actual costs and benefits of adding a
2 new customer will help to keep existing customers from having to subsidize the cost of
3 adding new customers to the system.

4 **III. EDUCATIONAL AND PROFESSIONAL BACKGROUND**

5 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL BACK-**
6 **GROUND, AND CURRENT RESPONSIBILITIES.**

7 A. I have an Associates Degree from Hiwassee College and a Bachelor of General Studies
8 from East Tennessee State University. I have worked in the natural gas industry since
9 1980 and have held various positions in the marketing area. I serve on the Tennessee Gas
10 Association's Board of Directors, where I am currently First Vice President. I have
11 served on the Southeastern Gas Association's Board of Directors and on many other
12 marketing related committees in various state and regional associations.

13 I have worked for Atmos and its predecessors since 1980. In 2000, I assumed my
14 current position, Vice President of Marketing of Atmos' Mid-States division. My job re-
15 sponsibilities include developing, coordinating, and implementing marketing programs to
16 increase market share, sales and revenue for the Company. I also serve on internal and
17 external committees involved in monitoring technological advances in gas equipment and
18 efficiencies and the resulting change in customer consumption profiles.

19 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS AUTHORITY?**

20 A. No. However, I have filed testimony in support of the Company's past general rate cases
21 in Georgia, Missouri and Virginia.

22 **IV. UNIFORM ACTIVATION CHARGE**

23 **Q. PLEASE DISCUSS THE PROPOSED ACTIVATION CHARGE.**

1 A. The Company is currently permitted to assess a \$40.00 activation charge for residential
2 customers (Rate Schedule 210), and a \$35.00 reconnection charge during normal busi-
3 ness hours for all other Rate Schedules.¹ The Company proposes to implement a uniform
4 \$40 Activation Charge across all service rate schedules.²

5 **Q. WHY SHOULD A UNIFORM ACTIVATION CHARGE BE ADOPTED?**

6 A. Activation of gas service, particularly to customers who have been shut off as a result of
7 delinquency or based upon a seasonal request, is a labor-intensive task. The labor and
8 other costs of service re-activation should be borne by those customers who require such
9 service. It costs no more to re-activate service to a Residential customer than to a Com-
10 mercial or other type of customer. But Residential customers currently pay more for this
11 service. A commercial establishment (whether it receives sales or transportation service
12 from the Company) should be required to pay the same charge that Residential Custom-
13 ers pay when activation is required.

14 Implementing a uniform Activation Charge across all rate schedules will bring
15 parity to the Company's tariffs. Customers who use this service should pay what it costs.
16 In addition, a uniform fee is more efficient to administer, thus helping the Company to
17 reduce costs to the benefit of all of its customers.

18 **Q. WHY SHOULD THE ACTIVATION CHARGE BE \$40?**

19 A. The TRA has found \$40.00 to be a reasonable Activation Charge for Residential Custom-
20 ers (Rate Schedule 210). Atmos merely asks that Commercial and other customers be re-
21 quired to pay the same amount, so that Residential Customers no longer subsidize the
22 cost of this service.

¹ See 2nd Revised Tariff Sheet No. 60 currently on file with the TRA.

1 **Q. EXACTLY WHAT DOES ATMOS PROPOSE FOR THE ACTIVATION**
2 **CHARGE?**

3 A. Atmos proposes a uniform Activation Charge of \$40 applicable to all meter turn-ons at an
4 existing meter location, and also applicable whenever the Company performs a reconnect
5 at a location where gas service has been disconnected. The Activation Charge would not
6 apply for the initial, first time activation of service for a home or business that has not
7 previously had gas service, nor would the charge apply to builders activating gas service
8 on new construction.

9 **V. OPTIONAL SERVICE TARIFF (INTERRUPTIBLE SALES)**

10 **Q. PLEASE EXPLAIN THE PROPOSED CHANGES TO THE COMPANY'S OP-**
11 **TIONAL SERVICE TARIFF?**

12 A. The Optional Service Tariff is Rate Schedule 250. We propose changes to three areas of
13 this tariff:

- 14 i) Changing the name of this tariff from "Optional" to "Interruptible Sales;"
15 ii) Elimination of the current requirement for stand-by facilities; and
16 iii) Addition of a provision that requires customers on this tariff to pay for Measurement
17 Data Collection and Verification equipment.

18 **Q. WHY CHANGE THE NAME TO "INTERRUPTIBLE SALES"?**

19 A. The Company and customers both refer to this as the "Interruptible Sales" rate tariff. The
20 term "interruptible" sales has a commonly understood meaning within the industry. The
21 term "optional" does not.

² In Docket No. 05-000258, the TRA authorized an increase in the activation charge for Rate Schedule 210, but denied the request for Rate Schedules 220, 221, 222, 230, 250, 260, 280, 292 and 293.

1 **Q. WHY IS THE COMPANY PROPOSING TO ELIMINATE THE REQUIREMENT**
2 **FOR CUSTOMER STANDBY FACILITIES?**

3 A. To qualify for interruptible sales service, the current tariff requires that a customer install
4 and operate an alternate-fuel stand-by system, to be used during gas curtailment. Histori-
5 cally, this provision was intended to prevent large volume customers from experiencing
6 plant shutdowns during periods of curtailment. However, curtailments rarely if ever oc-
7 cur anymore and consequently some customers have determined that the cost of con-
8 structing and maintaining standby facilities is not warranted. Customers that receive in-
9 terruptible gas sales service under Rate Schedule 250 are sophisticated large volume
10 customers. They are in the best position to evaluate the risks involved with curtailment
11 of service and decide whether to accept such risks in order to obtain a lower rate and also
12 avoid the cost of constructing and maintaining standby facilities. These large customers
13 have expressed a desire to eliminate the standby facilities requirement. The Company
14 does not want to be in the business of dictating operational practices to its large volume
15 customers, and although the revised tariff *recommends* the maintenance of standby facili-
16 ties, they should no longer be *required* to qualify for interruptible gas sales service.

17 **Q. WHAT DOES THE COMPANY PROPOSE REGARDING ELECTRONIC FLOW**
18 **MEASUREMENT?**

19 A. The Company proposes that customers served under Rate Schedule 250 pay to install and
20 maintain Measurement Data Collection and Verification equipment. The tariffs currently
21 require this for the Company's transportation customers. Interruptible sales customers
22 require the same daily and hourly flow measurement monitoring that this equipment pro-

1 vides. The Company believes that this requirement should be extended to the interrupti-
2 ble sales customers as well.

3 **VI. INTEREST PAID ON CUSTOMER DEPOSITS**

4
5 **Q.**

6 **Q. EXPLAIN WHAT THE COMPANY PROPOSES FOR THE INTEREST RATE**
7 **ON CUSTOMER DEPOSITS?**

8 **A.** Currently, the tariffs provide for the payment of a flat rate of 6% interest on customer
9 deposits. The Company proposes to substitute a flexible rate of interest, pegged to the
10 prime rate. The new proposed rate would be one percentage point over the prime bank
11 lending rate as published in *The Wall Street Journal* for the last business day of the pre-
12 ceding calendar year. Such a flexible rate would more accurately reflect prevailing inter-
13 est rates, without the need for further proceedings to amend the fixed rate currently pre-
14 scribed by the Company's tariffs.

15 **VI. PROJECTED SERVICE ORDER REVENUE**

16 **Q. HAVE YOU PREPARED ANY REVENUE PROJECTIONS FOR THE TARIFF**
17 **CHANGES YOU HAVE DISCUSSED?**

18 **A.** Yes. Attached to my testimony as Schedule MHE-1 is a report which I, with the assis-
19 tance of Company employees under my direction, prepared showing such revenue projec-
20 tions.

21 **Q. WHAT IS SHOWN IN THIS REPORT?**

22 **A.** This report contains a compilation of all service orders by type for all of the Company's
23 Tennessee service areas for a 2-year period from January 1, 2005 to December 31, 2006.

1 From this compilation, the total number of service orders that would be impacted by the
2 new and/or changed tariff charges for the period was averaged to determine an estimated
3 number of service orders per year. This estimated number was then multiplied by the re-
4 quested new tariff charge and/or change to yield an estimated annual revenue associated
5 with each charge. The results for each type of affected service order were then totaled to
6 yield the total estimated annual revenue from such charges in the amount of \$621,140.
7 This represents a \$83,680 increase over the current annual revenues for such charges.

8 **VI. MAIN EXTENSION POLICY**

9 **Q. EXPLAIN YOUR PROPOSED CHANGES TO THE MAIN EXTENSION POL-**
10 **ICY?**

11 A. The Extension Policy can be found in the General Rules and Regulations. Currently, the
12 Company will run to a Residential customer, free of charge, one foot of 2" gas main per
13 thousand cubic feet of estimated annual gas consumption. This practice was derived
14 based upon the average installation costs and the average customer consumption of many
15 years ago. Labor and material costs have increased substantially since that time, while
16 the average annual consumption of all customers has continued to decline at a steady rate.
17 Rather than derive another blanket rule of thumb, which too ultimately will become obso-
18 lete and need to be changed, the Company proposes to replace the stock free footage al-
19 lowance for Residential customers based strictly on consumption with a procedure requir-
20 ing the Company to conduct a feasibility study for each and every project. The results of
21 the feasibility study will guide the company's investment decision in this regard. This
22 will ensure that the customer requesting the service will pay, or otherwise justify, the cost
23 to serve them, and lift the investment burden currently borne by existing customers and

1 rate payers. The feasibility study is the same procedure used currently for all Commercial
2 or Industrial customers who use more than 500 mcf per year, as seen on Sheet No. 63 of
3 the Company's current Rules and Regulations.

4 The main extension policy has been amended to read simply as follows;

5 "The Company will install all mains, service lines, metering, and regulating
6 equipment necessary to serve the customer(s) free of charge, provided the revenue ex-
7 pected to be realized produces a rate of return on the investment that is equal to or
8 greater than the minimum allowed rate of return on equity approved in the Company's
9 most recent rate case. This rate of return analysis will be based on a feasibility study per-
10 formed by the company. This study will include consideration of all costs needed to pro-
11 vide service (materials, company and/ or contract labor, overheads, and applicable
12 taxes). These costs will be compared to the revenue that is either contracted for or can be
13 reasonably expected to be generated by the customers served by the extension. Should
14 this analysis result in a rate of return (ROE) less than the minimum allowed rate of re-
15 turn approved in the Company's most recent rate case, then the customer(s) may be re-
16 quired to remit to the company an Aid-in-Construction, including any applicable taxes, to
17 make up the difference in the actual and allowable rate of return.

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

19 **A.** Yes.

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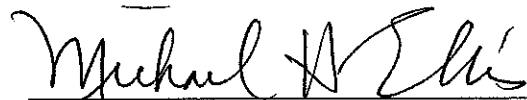
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VERIFICATION

STATE OF TENNESSEE)
)
COUNTY OF WILLIAMSON)


I, Michael H. Ellis, being first duly sworn, state that I am Vice President of Marketing for the 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 Testimony of Michael H. Ellis in support of Atmos Energy Corporation's Petition and the Exhibits thereto pre-filed in this docket on the date of filing of this Petition are true and correct to the best of my knowledge, information and belief.



Michael H. Ellis

Sworn and subscribed before me this 5th day of April, 2007.




Notary Public

Atmos Energy Corporation
Service Fee Revenues

Schedule MHE - 1

		2 Yr Avg. Service 2 Yr Avg. Service					
		Type of Order	Orders (All Classes)	Orders (Rate Sch. 210)	Current Unit Rate	Proposed Unit Rate	
Proposed New Fees							
Activation Fee, new meter sets	MSET		1,801	1,476	\$ 40.00	\$ 40.00	Current Revenue
Activation Fee, new meter sets	TOSI		9,161	8,052	\$ 40.00	\$ 40.00	\$ 59,040
Activation Fee, reconnect from delinquency (Rate 210)	RDEL		4,117	3,672	\$ 40.00	\$ 40.00	\$ 322,080
Activation Fee, reconnect from delinquency (Other rates)	RDEL		445	445	\$ 35.00	\$ 40.00	\$ 146,560
Activation Fee, reconnect from seasonal	RSEA		389	194	\$ 40.00	\$ 40.00	\$ 15,575
Activation Fee, reconnect from Customer off-request	RCUS		62	43	\$ 40.00	\$ 40.00	\$ 7,760
							\$ 1,720
							\$ 553,035
							\$ 621,140
							\$ 83,680

CY2005 Service Orders						
Office	MSET	TOSI	RDEL	RSEA	RCUS	
Blountville	107	699	412	36	13	
Columbia	381	1448	854	19	5	
Franklin	284	805	307	12	13	
Greenville	13	142	66	27	2	
Johnson City	275	1541	892	142	12	
Maryville	86	1182	446	22	8	
Morristown	128	902	232	44	2	
Murfreesboro	381	1640	437	48	2	
Shelbyville-Tn	92	347	187	17		
Union City	106	513	414	20	2	
Grand Total	1,851	9,219	4,247	387	59	
no. of orders for Residential	1,517	8,103	3,788	193	41	

CY2006 Service Orders						
Office	MSET	TOSI	RDEL	RSEA	RCUS	
Blountville	96	682	314	37	7	
Columbia	404	1449	826	30	1	
Franklin	258	863	319	21	14	
Greenville	28	145	40	25	3	
Johnson City	247	1453	544	137	20	
Maryville	120	1087	396	24	8	
Morristown	111	841	196	41	4	
Murfreesboro	259	1718	720	41	5	
Shelbyville-Tn	123	389	296	12		
Union City	104	471	335	22	3	
Grand Total	1,750	9,103	3,986	390	65	
no. of orders for Residential	1,435	8,001	3,555	195	45	