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NEAL & HARWELL, PLC
LAW OFFICES
150 FOURTH AVENUE, NORTH
SUITE 2000
NASHVILLE, TENNESSEE 37219-2498

TELEPHONE
(615) 244-1713

FACSIMILE
(615) 726-0573

WWW.NEALHARWELL.COM

JAMES F. NEAL (1929-2010)

AUBREY B. HARWELL, JR.
JON D. ROSS
JAMES F. SANDERS
THOMAS H. DUNDON
RONALD G. HARRIS
ALBERT F. MOORE
PHILIP N. ELBERT
JAMES G. THOMAS
WILLIAM T. RAMSEY
JAMES R. KELLEY
MARC T. McNAMEE
PHILIP D. IRWIN
A. SCOTT ROSS
GERALD D. NEENAN
AUBREY B. HARWELL, III
KENDRA E. SAMSON
DAVID G. THOMPSON
LISA PAIGE BINDER
ELIZABETH S. TIPPING
ROBERT A. PEAL

CHANDRA N.T. FLINT
STEPHEN M. MONTGOMERY
JEFF H. GIBSON
J. ISAAC SANDERS
BLIND AKRAWI
MEGAN N. DEARDORFF
MARIE TEDESCO SCOTT
WILLIAM J. HARBISON
JEFFREY A. ZAGER

OF COUNSEL
LARRY W. LINDEEN
CHARLES F. BARRETT

September 18, 2015

Sharla Dillon, Dockets Manager
Tennessee Regulatory Authority
Andrew Jackson State Office Building
Fourth Floor
500 Deaderick Street
Nashville, TN 37242

VIA E-MAIL AND HAND DELIVERY
sharla.Dillon@tn.gov

RE: Docket to Evaluation Atmos Energy Corporation's Gas Purchase and Related Sharing Incentives, TRA Docket No. 07-00225

Dear Sharla:

Enclosed is a redacted version of Atmos Energy Corporation's Review of Performance Based Ratemaking Mechanism Rider being filed in the referenced matter. The original and four copies are in route to the Authority.

Sincerely,

A. Scott Ross

ASR:prd

Enclosures

cc: Vance Broemel, Esq. (via e-mail)

CONFIDENTIAL

ATMOS ENERGY CORPORATION

REVIEW OF PERFORMANCE BASED RATEMAKING MECHANISM RIDER

Prepared for:

AUDIT STAFF OF THE TENNESSEE REGULATORY AUTHORITY

CONSUMER ADVOCATE AND PROTECTION DIVISION OF THE TENNESSEE ATTORNEY GENERAL

August 2015

Prepared by:

EXETER
ASSOCIATES, INC.
10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

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1.0 INTRODUCTION AND SCOPE OF INVESTIGATION

Atmos Energy Corporation (Atmos or Company) has operated under a Performance Based Ratemaking Mechanism Rider (PBRM) for gas costs since April 1, 1999. On September 26, 2007, the Tennessee Regulatory Authority (TRA) opened Docket No. 07-00225 to evaluate the Company's gas purchasing activities and the PBRM. The Company, Audit Staff of the TRA (TRA Staff), and the Consumer Advocate Division of the Tennessee Attorney General (CAD) (collectively, the Settling Parties) subsequently filed a Stipulation and Settlement Agreement in Docket No. 07-00225 (2013 Settlement) that was approved by the TRA in an order issued on August 6, 2013.

The 2013 Settlement provides for a triennial comprehensive review of Atmos' capacity planning and gas purchasing activities under the PBRM by an independent consultant. The independent review is to evaluate and report on all transactions and activities under the PBRM, including, but not limited to: (a) natural gas procurement; (b) capacity management; (c) storage; (d) hedging; (e) reserve margins; and (f) off-system sales. The review period established by the 2013 Settlement is April 1, 2011 through March 31, 2014. Exeter Associates, Inc. (Exeter) was selected by the Settling Parties through an RFP process to perform the independent review provided for under the 2013 Settlement. Exeter has previously been selected to perform similar independent reviews of the performance based gas procurement incentive mechanisms of both Piedmont Natural Gas Company (Piedmont) and Chattanooga Gas Company (Chattanooga). The RFP issued to perform the review of Atmos' PBRM included a Scope of Review that identified specific areas for investigation.

A draft report presenting the findings, results, and conclusions of Exeter's review was provided to the Settling Parties on July 6, 2015. On July 31, 2015, Atmos provided the Settling Parties and Exeter its comments on the draft report. Atmos' comments were intended to clarify certain facts regarding its PBRM as well as respond to several findings set forth in the draft report. Exeter has incorporated the Company's comments into this final report (Report), as Exeter deemed appropriate.

Exeter's Report consists of six sections in addition to this introductory section. Section 2 of the Report identifies the interstate pipeline transmission companies serving Atmos, the services the Company purchases from each pipeline, and the Company's review period gas supply arrangements. Included in Section 2 is a description of the Company's Asset Management Arrangement (AMA) with Atmos Energy Marketing, LLC (AEM), an affiliate of Atmos, and the services provided by AEM to Atmos. This is followed by a review of the affiliate relationship between AEM and Atmos to determine compliance with the Guidelines for

Affiliate Transactions contained in Atmos' PBRM tariff. Section 2 also provides a description of the Atmos system and the markets it serves, statistical data identifying the number of customers served, and usage by customer class.

Section 3 of the Report summarizes and evaluates Atmos' gas procurement activities and performance under the PBRM. Section 3 also addresses the incentives provided for under the PBRM.

The fourth section of the Report evaluates Atmos' storage management activities. Section 5 of the Report analyzes the reasonableness of the Company's capacity portfolio. This includes an evaluation of Atmos' design peak day forecasting procedures and an analysis of the Company's demand curves.

Section 6 begins with a comparison of Atmos' PBRM with the performance based gas procurement incentive mechanisms of Piedmont and Chattanooga. Next, several aspects of Atmos' PBRM identified in the RFP Scope of Review are addressed. This includes the deadband provision, the inclusion of avoided demand charges in the calculation of the benchmark, and the overall balance of the incentives between Atmos and ratepayers under the PBRM. In the final section of the Report, Section 7 summarizes Exeter's conclusions, presents findings of fact, and identifies and describes areas of concern and improvement that may warrant further consideration.

2.0 ATMOS' SYSTEM AND MARKETS

Atmos provides natural gas sales and distribution service to three physically and geographically separated service territories in West Tennessee, Middle Tennessee, and East Tennessee. The Company's West Tennessee service territory consists of Union City and the adjacent areas in Obion County. The Middle Tennessee service territory consists of Columbia, Franklin, Murfreesboro, Nolensville, and the adjacent areas in Maury, Rutherford, and Williamson Counties. The East Tennessee service territory consists of Johnson City, Elizabethton, Greenville, Kingsport, Shelbyville, Lynchburg, Maryville-Alcoa, Morristown, Bristol, and adjacent areas in Bedford, Moore, Blount, Hamblen, Sullivan, Carter, Washington, and Greene Counties. The gas supply and transportation contracts serving East Tennessee also serve customers in Virginia, and the Bristol distribution system straddles the state line serving customers in both Tennessee and Virginia. For gas supply procurement purposes, the West Tennessee and Middle Tennessee service territories are internally referred to by the Company as "Area I," and the East Tennessee/Virginia service territory is internally referred to as "Area II." Atmos' purchased gas costs are recovered through a Purchased Gas Adjustment Rider (PGA Rider). Separate PGA Riders are applicable for the West Tennessee service territory and the Middle/East Tennessee service territories.

Atmos contracted for firm transportation and storage services from seven interstate pipelines during the review period:

- Texas Gas Transmission (Texas Gas);
- Columbia Gulf Transmission (Columbia Gulf)
- Texas Eastern Transmission (Texas Eastern or Tetco);
- Dominion Transmission (DTI);
- Tennessee Gas Pipeline (TGP);
- Southern Natural Gas (SONAT); and
- East Tennessee Natural Gas (ETNG).

Atmos is physically interconnected with four of these pipelines: Texas Gas, Columbia Gulf, Texas Eastern, and ETNG. Figure 1 presents a map of the Company's three service territories and the interstate pipelines serving Atmos. The interstate pipeline services purchased by Atmos during the review period are described in Section 2.1. In addition to these interstate pipeline services, the Company also purchased storage services from the Saltville Gas Storage Company, LLC (Saltville Storage) and Caledonia Gas Storage (Caledonia Storage), and utilized the Barnsley Storage facility located in Kentucky which is owned and operated by Atmos Pipeline &

Figure 1.
Atmos Service Territory and Pipeline Interconnects

Storage, LLC. These storage services and facilities are also discussed in Section 2.1. Atmos' AMA with Atmos Energy Marketing is described in Section 2.2. The Company's review period gas supply arrangements are described in Section 2.3. Section 2.4 provides a review of Atmos' relationship with its affiliate, AEM. Lastly, Section 2.5 summarizes the jurisdictional services provided by Atmos, the number of customers served, and annual throughput volumes.

2.1 Interstate Pipeline Services

During the review period, Atmos' transportation arrangements with Texas Gas, Texas Eastern, and ETNG provided for the delivery of gas supplies directly to Atmos' system (citygate), while TGP and SONAT provided for the upstream delivery of gas to ETNG. Atmos maintained a number of transportation arrangements with Columbia Gulf during the review period. These Columbia Gulf arrangements provided for the delivery of gas supplies directly to Atmos' system, and/or the delivery of upstream gas supplies to ETNG. Gas supplies delivered to Atmos under these interstate pipeline transportation arrangements were, unless noted, purchased in the Gulf Coast production region. The demand charges associated with the interstate pipeline arrangements that serve the East Tennessee service territory were allocated to the Tennessee and Virginia jurisdictions based on forecasted design day demands.

2.1.1 *Texas Gas Transmission*

The Texas Gas system, which originates in Southern Louisiana (SL) and extends to Lebanon, Ohio, consists of five rate zones (Zones SL and 1-4). Zone SL consists of the lower half of Louisiana and provides access to the Gulf Coast production region. Zone 1 includes the upper half of Louisiana and extends to just south of Atmos' West Tennessee service territory. Zone 1 provides Atmos with access to Fayetteville and Haynesville Shale gas production. The West Tennessee service territory is located in Texas Gas Zone 2.

Atmos maintained two contracts with Texas Gas during the review period that provided for the delivery of gas to the West Tennessee service territory. Under Contract No. G0750, Atmos purchased a bundled firm transportation and storage service that provided for no-notice service under Rate Schedule SGT (Small General Transportation service). This contract provided for a maximum daily delivered quantity (MDQ) of 7,495 Dth/day during the months of October through April. Of this quantity, 5,108 Dth/day was available as no-notice service, and the remaining 2,387 Dth/day was available to deliver nominated supplies. The maximum winter season no-notice quantity was 239,576 Dth. Contract No. G0750 also provided for the delivery of nominated supplies of 4,120 Dth/day during the months of May through September.

Atmos purchased firm transportation service from Texas Gas under Rate Schedule STF (Short Term Firm) during the review period (Contract No. T-21438). This arrangement provided for an MDQ of 2,000 Dth/day during the winter period (November through March) and an MDQ of 500 Dth/day during the summer period (April through October). Atmos' firm transportation agreements with Texas Gas specify primary receipt point entitlements by zone, with approximately 85 percent of those entitlements in Zone SL and 15 percent in Zone 1.

2.1.2 *Columbia Gulf Transmission*

Atmos maintained five firm transportation contracts with Columbia Gulf under Rate Schedule FTS-1 during the review period (Contract Nos. 23481, 23188, 142156, 84924, and 135019). Contract No. 23481 provided for the delivery of gas directly to the Company's Middle Tennessee service territory during the review period. The MDQ associated with Contract No. 23481 was 25,000 Dth/day.

At the beginning of the review period, the MDQ under Contract No. 23188 was 20,000 Dth/day, and this contract initially provided for the delivery of up to 12,500 Dth/day directly to the Company's Middle Tennessee service territory, and up to 7,500 Dth/day for the upstream delivery of gas supplies to ETNG. The Company reduced the MDQ under Contract No. 23188 effective May 1, 2013 by eliminating the upstream delivery to ETNG contract quantity. As subsequently discussed, this MDQ reduction was replaced by Contract No. 142156.

Contract No. 142156, which became effective June 1, 2013, provided for the delivery of Columbia Gulf-sourced gas supplies to a Florida Gas Transmission delivery point in Lafayette, Louisiana. These supplies were delivered to the Atmos' Middle Tennessee service territory by backhaul. The MDQ associated with Contract No. 142156 was 7,500 Dth/day.

Contract No. 84924 initially provided for the delivery of gas directly to the Company's Middle Tennessee service territory. Effective June 1, 2013, the delivery point was changed to the same Florida Gas Transmission delivery point in Lafayette, Louisiana included under Contract No. 142156, and these supplies were also delivered by backhaul. The MDQ under Contract No. 84924 was 5,000 Dth/day during the review period.

Columbia Gulf Contract No. 135019 provided for the upstream delivery of gas to ETNG for subsequent delivery to Atmos' East Tennessee service territory. The MDQ under Contract No. 135019 was 5,000 Dth/day during the review period.

2.1.3 *Texas Eastern Transmission*

Atmos maintained two delivery arrangements with Texas Eastern during the review period. The Company maintained a firm transportation contract with Texas Eastern under Rate Schedule FT-1 that provided for the delivery of gas to Atmos' Middle Tennessee service territory (Contract No. 910800R1). The Company's Texas Eastern FT-1 contract was a backhaul arrangement providing for the delivery of gas from Texas Eastern's interconnect with the Rockies Express Pipeline (REX) in Clarington, Ohio. The FT-1 contract was also used to deliver gas withdrawn under Atmos' subsequently discussed DTI storage arrangement. The MDQ under Texas Eastern Contract No. 910800R1 was 5,000 Dth/day.

Effective June 2013, Atmos executed a contract with Texas Eastern for a bundled storage and transportation arrangement under Texas Eastern Rate Schedule SS-1 (Contract No. 400244R2). The maximum daily withdrawal quantity (MDWQ) under the SS-1 contract was 3,000 Dth/day, and the maximum winter season withdrawal quantity was 180,000 Dth. Contract No. 400244R2 provided service to the Company's Middle Tennessee service territory. Appalachia region supplies were purchased by Atmos to fill SS-1 storage.

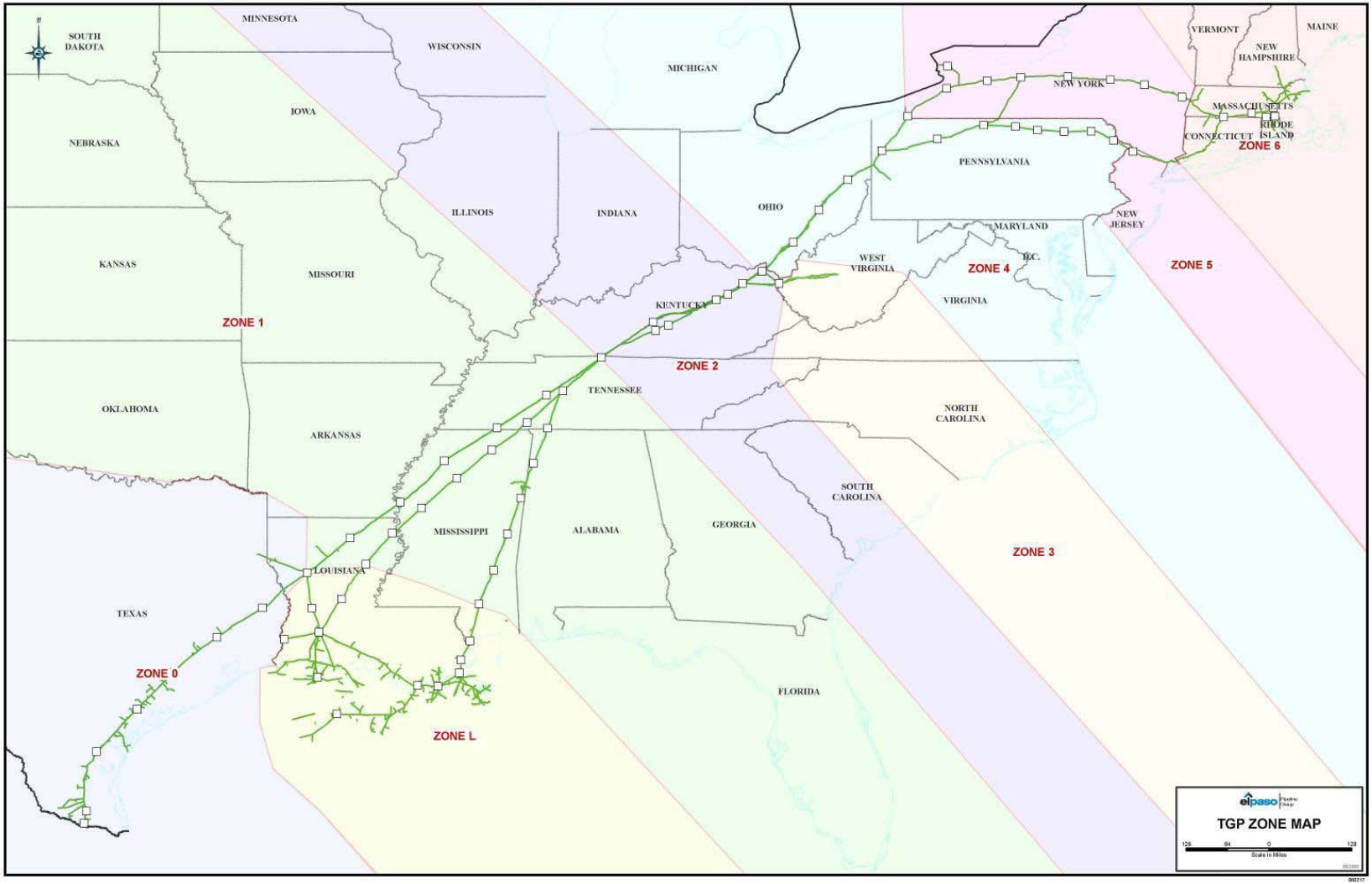
2.1.4 *Dominion Transmission*

Atmos purchased unbundled storage service from DTI under Rate Schedule GSS (General Storage Service) to serve the Company's Middle Tennessee service territory during the review period (Contract No. 600047). The DTI storage facility is located in Oakford, Pennsylvania, and gas withdrawn from DTI GSS storage is delivered to Atmos by backhaul under Texas Eastern FT-1 Contract No. 910800R1. The Company filled DTI GSS storage with REX Clarington, Ohio-sourced gas supplies. The MDWQ under the DTI GSS arrangement was 4,880 Dth/day and the maximum winter season withdrawal quantity was 411,765 Dth.

2.1.5 *Tennessee Gas Pipeline*

The TGP system originates in the Gulf Coast natural gas production region and extends to New England. In the production region, the TGP system consists of three primary transmission lines, referred to as the 100, 500, and 800 Legs. The TGP system is also divided into eight zones (Zones 0, L, and 1-6) for rate purposes. The State of Texas is designed as Zone 0, Zone L consists largely of the State of Louisiana, and Zone 1 extends from the Texas border with Northern Louisiana to the Kentucky/Tennessee border. A map of the TGP system is provided in Figure 2.

Figure 2.
Tennessee Gas Pipeline
System Map



During the review period, Atmos maintained two firm transportation service arrangements with TGP under Rate Schedule FT-A to serve the Company's East Tennessee service territory (Contract Nos. 69218 and 92725). FT-A Contract No. 69218 provided for the delivery of Gulf Coast supplies to ETNG in TGP Zone 1. Contract No. 69218 had a review period MDQ of 58,656 Dth/day through October 31, 2012, at which time the MDQ was reduced to 53,656 Dth/day. The Company's receipt point capacity under TGP Contract No. 69218 during the review period was subdivided by zone and leg as follows:

Tennessee Gas Pipeline Capacity Contract No. 69218	
Zone – Leg	**MDQ (Dth)**
Zone 0 – 100 Leg	40,000
Zone L – 100 Leg	3,750
Zone L – 500 Leg	8,656
Zone L – 800 Leg	1,250
Total	**53,656**

TGP FT-A Contract No. 92725 also provided for the delivery of Gulf Coast supplies to ETNG in TGP Zone 1. The MDQ associated with Contract No. 92725 was 10,000 Dth/day, and the receipt point during the review period was the TGP Zone L – 100 Leg.

Atmos maintained a market area firm storage service arrangement with TGP that provided for no-notice service under Rate Schedule FS-MA (Contract No. 3981). Gas was delivered to and from storage under Atmos' FT-A firm transportation arrangements with TGP. The MDWQ associated with Contract No. 3981 was 20,000 Dth/day, and the maximum winter season withdrawal quantity was 835,674 Dth.

2.1.6 *Southern Natural Gas Company*

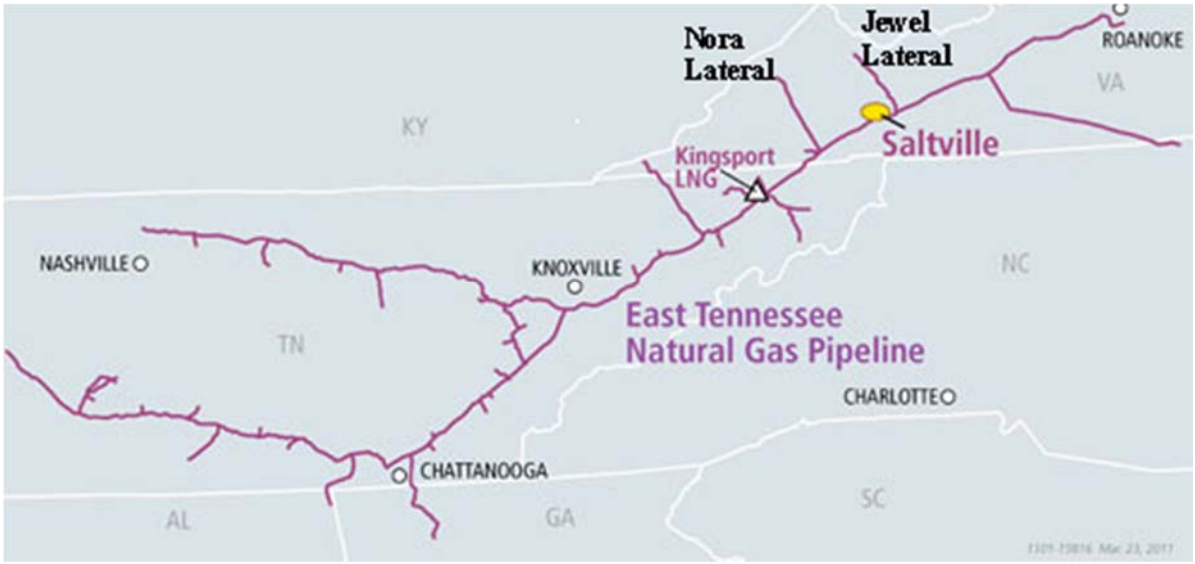
Atmos maintained a firm transportation service arrangement with SONAT under Rate Schedule FT during the review period (Contract No. FSNG239). This arrangement provided for the upstream delivery of Gulf Coast-sourced supplies to ETNG for subsequent delivery to the Company's East Tennessee service territory. The MDQ associated with the Company's SONAT FT arrangement was 7,658 Dth/day.

2.1.7 *East Tennessee Natural Gas*

ETNG consists of two mainline systems in Central Tennessee that converge near Knoxville and extend to an area just south of Roanoke, Virginia. ETNG provides for, among

other things, the delivery of upstream gas supplies from Columbia Gulf, Texas Eastern, TGP, and SONAT to Atmos' Middle and East Tennessee service territories. A map of the ETNG system is presented in Figure 3. During the review period, Atmos maintained six arrangements for firm transportation service with ETNG—five under Rate Schedule FT-A (Contract Nos. 30774R2, 34538R2, 410243R2, 410334R2, and 410274R1), and one under Rate Schedule FT-LNGS (Contract No. 30777R2).

Figure 3.
East Tennessee Natural Gas System Map



ETNG FT-A Contract No. 30774R2 provided for the delivery of gas from TGP to Atmos' East Tennessee service territory. The contract also provided capacity for the delivery of gas on ETNG's Nora Lateral, located in Dickenson County in Southwest Virginia (see Figure 3 above). Atmos purchased gas from AEM on a delivered-to-Nora Lateral basis under two separate arrangements during the review period. These Nora Lateral purchase arrangements are discussed in greater detail in Section 2.3. The MDQ associated with Contract No. 30774R2 was 84,588 Dth/day. Of this amount, 72,102 Dth/day of capacity was used to deliver gas from TGP, and the remainder was used to deliver gas supplies purchased under one of the Nora Lateral supply arrangements with AEM.

ETNG FT-A Contract No. 34538R2 provided for the delivery of up to 27,500 Dth/day to the East Tennessee service territory. This included the delivery of 7,500 Dth/day from SONAT under Contract No. FSNG239; 4,000 Dth/day for the delivery of gas supplies purchased from AEM under a second Nora Lateral arrangement; 6,000 Dth/day for the delivery of gas withdrawn from Saltville Storage; and 10,000 Dth/day for the delivery of gas on ETNG's Jewell Ridge

Lateral in Tazewell and Smyth Counties, Virginia that was purchased from AEM on a delivered-to-ETNG basis (as shown previously in Figure 3). The Company's Saltville Storage arrangement is discussed in greater detail in Section 2.1.8.

ETNG FT-A Contract No. 410243R2 provided for the delivery of Texas Eastern-sourced gas supplies purchased by Atmos from AEM on a delivered-to-ETNG basis. The MDQ associated with FT-A Contract No. 410243R2 was 1,500 Dth/day.

ETNG FT-A Contract Nos. 410334R1 and 410274R1 provided for the delivery of gas withdrawn from Saltville Storage to Atmos' East Tennessee service territory. The MDQs associated with these arrangements were 20,000 Dth/day and 1,500 Dth/day, respectively.

Atmos purchased winter-period liquefied natural gas (LNG) unbundled storage service from ETNG under Rate Schedule LNGS (Liquefied Natural Gas Storage Service) to serve the Middle and East Tennessee service territories during the review period. Atmos maintained a firm transportation service arrangement under Rate Schedule FT-LNGS that provided for the delivery of gas withdrawn from storage under Atmos' LNGS arrangement with ETNG (Contract No. 30777R2). The LNG facility is located near Kingsport, Tennessee. Contract No. 30777R2 only provided for service during the winter period months of November through March. The MDQ associated with Contract No. 30777R2 was 36,633 Dth/day. The MDWQ associated with the ETNG LNGS arrangement (Contract No. 33245) was 52,633 Dth/day and the maximum winter season withdrawal quantity was 339,900 Dth.

2.1.8 *Saltville Gas Storage Company*

Atmos purchased unbundled storage service under two arrangements with Saltville Storage under Rate Schedule FSS during the review period. Saltville Storage is owned and operated by Spectra Energy, which also owns ETNG and Texas Eastern. The Saltville Storage facility is located in Smyth County, Virginia, and is directly connected to ETNG (as shown previously in Figure 3). The MDWQ associated with Saltville Storage Contract No. 420009R1 was 30,000 Dth/day. The MDWQ associated with Contract No. 420040R1 was 7,000 Dth/day. The maximum winter season withdrawal quantities under the two arrangements were 300,000 Dth and 70,000 Dth, respectively. Gas withdrawn from Saltville Storage is primarily delivered to Atmos under ETNG FT-A Contract Nos. 34538R2, 410274R1, and 410334R2.

2.1.9 *Caledonia Gas Storage*

Atmos purchased storage service from Caledonia Storage under Rate Schedule FSS during the review period. Caledonia Storage is interconnected with the TGP 500 Leg in Zone 1.

Caledonia Storage is owned and operated by ENSTOR, an independent storage operator. The MDWQ associated with the Company's Caledonia Storage arrangement was 10,000 Dth/day, and the maximum winter season withdrawal quantity was 500,000 Dth. Caledonia Storage withdrawals were delivered by TGP to ETNG under Atmos' TGP FT-A firm transportation arrangements. The Caledonia Storage contract expired on March 31, 2015, and was replaced by alternative storage arrangements.

2.1.10 *Barnsley Storage*

The Barnsley Storage field, located in Hopkins County, Kentucky, is owned and operated by Atmos Pipeline & Storage, LLC, a wholly-owned subsidiary of Atmos Energy Holdings, Inc. The costs associated with owning and operating Barnsley Storage are allocated to Atmos and included in the Company's base rates. The MDWQ from Barnsley Storage was 30,000 Dth/day and the maximum winter season withdrawal quantity was 1,300,000 Dth. Barnsley Storage is not physically interconnected with the Company's distribution systems. Gas withdrawn from Barnsley Storage was delivered to Atmos through various exchange arrangements with AEM under the AMA. That is, gas withdrawn from Barnsley Storage was delivered to other markets served by AEM and like quantities were delivered to Atmos to serve the Company's West and Middle Tennessee service territories. Exchange deliveries may be delivered to Atmos by Texas Gas, Columbia Gulf, and Texas Eastern.

2.2 Asset Management Agreement

Atmos operated under an AMA with Atmos Energy Marketing during the review period. The term of the AMA was April 1, 2011 through March 31, 2014. The AMA was approved by the TRA in Docket No. 11-00034 on February 24, 2012. Under the AMA, Atmos released all of its interstate pipeline firm transportation and storage capacity assets to AEM at zero cost.[1] The AMA also provided that Atmos would purchase its gas supplies from AEM. AEM paid Atmos an annual fee of [redacted] under the AMA for the ability to utilize Atmos' assets and to be Atmos' gas supplier. A portion of the AMA fee was allocated to the Company's Virginia jurisdiction.

Under the AMA, Atmos determined how its pipeline transportation and storage assets should be used on a daily basis to meet its customers' gas supply requirements (referred to as "virtual dispatch"). On a daily basis, AEM was entitled to use Atmos' assets in the manner determined by virtual dispatch, use the assigned assets in a different manner, or use other assets

[1] The Texas Gas SGT contract was non-releasable and AEM was designated as Atmos' agent for this arrangement.

that AEM had available to satisfy Atmos' daily gas supply requirements so long as AEM met Atmos' daily requirements. The billing arrangements under the AMA provided that Atmos would continue to be responsible for the interstate pipeline demand charges associated with the released assets. AEM was billed for the interstate pipeline variable transportation and storage charges incurred under the released assets. Those charges incurred by AEM to provide service to Atmos pursuant to virtual dispatch were billed to Atmos by AEM.

2.3 AMA Gas Supply and Delivery Arrangements

As stated above, Atmos purchased its gas supplies from AEM under the AMA pursuant to Atmos' virtual dispatch instructions. Supplies purchased utilizing the assets released to AEM that accessed a gas production region (e.g., Gulf Coast) were priced based on applicable published index prices. For example, gas supplies nominated for purchase in Texas Gas Zone SL through virtual dispatch were priced based on a Texas Gas Zone SL published index price. Most purchases included a [redacted] to the index price. This pricing applied to purchases delivered to Atmos under its Texas Gas SGT and STF, Columbia Gulf FTS-1, Texas Eastern FT-1, TGP FT-A, and SONAT FT firm transportation arrangements.

As indicated previously, Atmos purchased gas supplies on a delivered-to-ETNG basis during the review period. For these purchases, AEM arranged for the delivery of gas supplies from a production region to ETNG using assets other than those released to it by Atmos. The delivered-to-ETNG arrangements included two with AEM for the delivery of gas supplies to ETNG's Nora Lateral—one for 12,272 Dth/day and the other for 4,295 Dth/day. The arrangement for 12,272 Dth/day was a baseload agreement entered into with AEM prior to the review period AMA, and was effective through the term of the AMA. Pricing under this arrangement was based on an average of production-area index prices applicable for supplies accessed by TGP and New York Mercantile Exchange (NYMEX) closing prices, [redacted]. The arrangement for 4,295 Dth/day was priced based on the NYMEX closing price [redacted] for first-of-the-month (FOM) purchases, and for incremental day-ahead purchases, the price was based on Platts' *Gas Daily* "Daily Price Survey" Henry Hub midpoint index price [redacted].

The AMA with AEM included a gas supply arrangement that provided for the delivery of up to 10,000 Dth/day to ETNG's Jewell Ridge Lateral. This arrangement had the same pricing features as the Nora Lateral arrangement for 4,295 Dth/day.

The AMA provided for the purchase of up to 1,500 Dth/day on a delivered-to-ETNG basis of Texas Eastern-sourced supplies during the winter period (November through March).

This arrangement provided for a commodity price based on a Gulf Coast production region index price applicable for gas supplies accessed by Texas Eastern (East Louisiana, or ELA) [redacted]

The AMA also included an arrangement that provided for the delivery of up to 3,365 Dth/day on a delivered-to-ETNG basis of TGP-sourced supplies during the winter period. This arrangement required the payment of [redacted] during the winter period, and included a commodity price based on a Gulf Coast production region index price applicable for gas supplies accessed by TGP, [redacted].

In addition to these delivered-to-ETNG supply arrangements, the AMA included a peak winter period (December through February) arrangement that provided for the delivery of up to 20,000 Dth/day of Columbia Gulf and Texas Eastern-sourced gas supplies directly to the Middle Tennessee service territory. This arrangement required the payment of [redacted] during the months of December through February, and included a commodity price based on a production area index price applicable for Gulf Coast gas supplies accessed by Columbia Gulf or Texas Eastern, as applicable, [redacted].

Atmos' review period gas supply arrangements with AEM also included an arrangement that provided for the purchase and delivery of gas to fill DTI GSS and Barnsley Storage during the summer period (April through October). The DTI GSS storage fill arrangement had an MDQ of 2,288 Dth/day, and the gas purchased was priced based on REX published index prices [redacted]. The DTI GSS arrangement also required the payment of [redacted] during the months of July through September. The Barnsley Storage fill arrangement provided Atmos with the choice of either a Texas Gas or ANR Pipeline (ANR) production area published index price, [redacted]. It was anticipated at the time the AMA was executed that both Texas Gas and ANR would have the ability to physically deliver gas to Barnsley Storage. However, the interconnect with ANR did not come to fruition, and therefore Texas Gas was the only physical interconnect with Barnsley Storage. The Barnsley Storage fill arrangement had an MDQ of 5,467 Dth/day.

Finally, as indicated previously in Section 2.1.10, gas supplies withdrawn from Barnsley Storage cannot physically be delivered to any of the Company's Tennessee service territories. Under the AMA, these withdrawals were delivered to the West or Middle Tennessee service territories by displacement (exchange). The AMA provided for Barnsley Storage exchange deliveries by either Texas Gas, Columbia Gulf, or Texas Eastern. Atmos is charged various [redacted] charges for the delivery of Barnsley Storage withdrawals.

There was one review period exception to Atmos purchasing its gas supplies from AEM. On a peak day during the 2013-2014 winter season, January 6, 2014, Atmos purchased 10,330 Dth from [redacted]. This supply was delivered directly to the Company's Middle Tennessee service territory by Texas Eastern. The purchase was made at a negotiated [redacted]. This purchase was made from [redacted] to meet operational requirements in the Middle Tennessee service territory. Table 1 summarizes the Company's upstream and direct transportation, storage, and delivered supply arrangements by service territory at the conclusion of the review period.

2.4 Affiliate Guidelines

The RFP Scope of Review for this investigation included the requirement to review the relationship between Atmos and its affiliates to determine compliance with the Affiliate Transactions guidelines included in Atmos' PBRM tariff. Exeter has interpreted this requirement to apply to PBRM and gas procurement-related activity and the provision of gas supply services to transportation customers on the Atmos system for which Atmos' affiliate, AEM, competes with non-affiliated marketing companies. A complete description of Atmos' Affiliate Transactions guidelines is included in the Company's PBRM tariff which is included as Appendix A to this Report. As identified in the PBRM tariff, the guidelines consist of:

- RFP Procedures for Selection of Asset Manager and/or Gas Provider
- Standards of Conduct; and
- Complaints

2.4.1 *RFP Procedures for Selection of Asset Manager and/or Gas Provider*

Atmos' PBRM tariff includes seven guidelines for RFP procedures for the selection of an Asset Manager. The Company issued one RFP for the provision of review period AMA gas supply services. Atmos' affiliate, AEM, was selected as Atmos' Asset Manager through the AMA RFP process. Atmos' RFP and selection process were investigated and approved by the TRA in Docket No. 11-00034 in an Order issued February 24, 2012. That Order found that Atmos had complied with the RFP and bidding procedures set forth in the Company's PBRM

Table 1.
Atmos Energy Corporation
Summary of Capacity Resources and Delivery Arrangements – Conclusion of Review of Period[1]

Pipeline/Provider – Service	Contract No.	Tennessee Service Territory	MDQ Winter (Dth)	MDQ Summer (Dth)	Winter Season (Dth)	Annual (Dth)	Contract Expiration

tariff. Exeter's investigation included review of the RFP issued for AMA services, the bids received, and the Company's analysis of those bids. Our review did not identify any violations of the required RFP procedures for the selection of an Asset Manager included in the PBRM tariff.

2.4.2 *Standards of Conduct*

Atmos' PBRM tariff includes 17 Standards of Conduct guidelines. Those guidelines are also described in the PBRM tariff included as Appendix A to this Report. Several of these guidelines relate to natural gas supply procurement activities (items 4, 5, 7, 9, 10, 14, and 15). As just described, Atmos' affiliate, AEM, was the Company's review period gas supplier and was selected through a competitive RFP process approved by the TRA, and Exeter's review revealed no violations of these guidelines.

Standards of Conduct guidelines 13 and 16 relate to providing rate discounts or tariff waivers to affiliates. Exeter's investigation found that Atmos has not granted rate discounts or tariff waivers to either affiliates or non-affiliated companies.

Standards of Conduct guidelines 1 and 2 relate to the consistent application of tariff provisions on a non-discriminatory basis for both affiliates and non-affiliated entities. As part of our investigation, Exeter reviewed a sample of the monthly imbalance statements and the penalty charges assessed to marketers operating on Atmos' system. Exeter's review did not reveal discriminatory treatment for affiliated and non-affiliated marketers.

Standards of Conduct guidelines 11 and 12 relate to separation of employees and maintenance of separate books of accounts and records from affiliates. Exeter's review found that the operating employees of Atmos and its affiliate, AEM, function independently from each other and that separate books of accounts and records are maintained.

Standards of Conduct guidelines 3, 6, and 8 relate to the similar treatment for requests for service and the disclosure of information. These guidelines, and to some extent all 17 Standards of Conduct, are addressed by a Corporate Code of Conduct Policy. The Corporate Code of Conduct requires that all employees abide by the letter and spirit of all laws, rules, and regulations that apply to Atmos' business and employees. This includes the PBRM tariff Standards of Conduct. Other topics addressed in the Corporate Code of Conduct include Competition, Fair Dealing, Confidential Information, and Honesty with Regulators and Other Government Officials. The Company's Gas Supply Department procedures manual includes Affiliate Relationship Procedures. All employees are required to undergo annual Code of Conduct training.

To independently evaluate Atmos' compliance with the PBRM Standards of Conduct guidelines, Exeter attempted to contact several of the non-affiliated marketers providing service to Atmos transportation customers to determine whether proper affiliate relationships with AEM were being maintained. AEM is the largest marketer on the Atmos system, serving customers responsible for approximately [redacted] percent of total transportation volumes. Only one non-affiliated marketer was willing to discuss Atmos' affiliate relationships, subject to anonymity. The non-affiliated marketer indicated that Atmos' affiliate relationships appeared proper. The only concern that was raised related to the terms and conditions of the transportation service provided by Atmos. The non-affiliated marketer suggested that Atmos' terms and conditions of transportation service would likely be different if AEM was not the largest marketer on the Atmos system. Since the terms and conditions of transportation service are specified by tariff and Exeter's review revealed that the terms and conditions of service were applied equally to AEM and non-affiliated marketers, no violations of the Standards of Conduct were found.

Standards of Conduct guideline 17 relates to the maintenance of records sufficiently detailed to verify compliance with the guidelines. During Exeter's review, Atmos was able to satisfy all of Exeter's Standards of Conduct guideline data requests.

2.4.3 *Complaints*

The PBRM tariff includes procedures for addressing complaints filed by any customer, marketer, or other interested third party with the TRA relating to violations of the Affiliate Transactions guidelines. During the review period, no complaints were filed with the TRA or the Company alleging affiliate guideline violations.

2.5 Markets Served by Atmos

Atmos provided firm bundled utility sales service during the review period, and also provided transportation service from its citygates to a customer's premises for those customers who acquire their own gas supplies on the interstate markets and separately arrange for the delivery of those supplies to Atmos' citygates. Table 2 summarizes the number of Atmos customers served and annual throughput by class for calendar years 2011, 2012, and 2013. As shown in Table 2, Atmos has been experiencing moderate customer growth. This customer growth has been most significant in the Company's Middle Tennessee service territory.

Table 2. Atmos Energy Corporation Annual Customers and Throughput by Class (Calendar Years 2011-2013)			
	2011	**2012**	**2013**
CUSTOMERS BY CLASS			
Residential	114,008	114,885	115,727
Commercial	15,534	15,566	15,829
Industrial	364	359	356
Public Authority	484	497	597
Compressed Gas	1	1	1
Transport	102	105	112
Total Customers	**130,492**	**131,413**	**132,622**
VOLUMES BY RATE SCHEDULE (Dth)			
Residential	6,258,400	6,638,286	8,657,745
Commercial	4,386,611	4,650,804	5,641,140
Industrial	1,217,309	1,440,614	1,490,241
Public Authority	64,788	64,273	127,280
Compressed Gas	1,976	1,975	2,670
Transport	7,901,512	7,700,573	8,019,913
Total Volumes	**19,830,596**	**20,496,524**	**23,938,989**

3.0 PERFORMANCE BASED RATEMAKING MECHANISM RIDER

This section of Exeter's Report summarizes and evaluates Atmos' gas procurement activities and performance under the Performance Based Ratemaking Mechanism Rider. The PBRM is designed to encourage the Company to perform its gas purchasing activities at minimum cost, consistent with efficient operations and service reliability. The PBRM replaces the reasonableness or prudence review of the Company's gas purchasing activities overseen by the TRA in accordance with Rule 1220-4-7-.05, Audit of Prudence of Gas Purchases.

3.1 PBRM Structure

The PBRM consists of two components:

- Gas Procurement Incentive Mechanism
- Capacity Management Incentive Mechanism

The Gas Procurement Incentive Mechanism establishes a monthly benchmark to which the Company's commodity cost of gas is compared. It also addresses the use of financial instruments or private contracts in managing gas costs. The net incentive savings or costs are shared equally between the Company and its customers. The Capacity Management Incentive Mechanism is designed to encourage the Company to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market. This would include off-system sales activity. It also addresses the sharing of asset management fees and other forms of compensation received by Atmos for the release and utilization of the Company's transportation and storage assets by third parties. Capacity Management Incentive Mechanism savings are shared between sales customers and the Company on a 90/10 percent basis, respectively. The Company is subject to an overall combined cap on incentive savings or costs under both mechanisms of $1.25 million each plan year (April through March). A complete description of the PBRM is included as Appendix A to this Report.

3.1.1 *Gas Procurement Incentive Mechanism*

Background

In the natural gas industry, there are primarily two types of gas supply purchase arrangements—first-of-the-month (FOM) monthly baseload purchases and daily purchases. FOM purchases are generally arranged several days prior to the month of delivery, commence flow on the first day of the month, and provide for the delivery of the same quantity of gas on each day during the month. Daily purchases are generally arranged the day prior to delivery.

While daily purchases generally flow for one day, they may also be arranged for multiple consecutive days.

There are various natural gas industry publications that identify, after the fact, the average price paid for FOM and daily gas purchases at major natural gas trading locations. These average or market prices are referred to as "index prices." FOM index prices are published in *Inside FERC's Gas Market Report* (*Inside FERC*) and *Natural Gas Intelligence* (NGI). Daily index prices are published in *Gas Daily*. Trading locations at which Atmos purchases gas with published index prices include the following:

Texas Gas Transmission

- Zone SL
- Zone 1

Columbia Gulf Transmission

- Mainline

Texas Eastern

- Rockies Express (REX)
- East Louisiana (ELA)

Tennessee Gas Pipeline

- Zone 0, 100 Leg
- Zone L, 500 Leg
- Zone L, 800 Leg

Southern Natural Gas

- Louisiana

In addition to purchases at locations with published index prices, Atmos made purchases delivered to ETNG's Nora and Jewell Ridge Laterals, to ETNG by Texas Eastern and TGP, and citygate deliveries made by Columbia Gulf and Texas Eastern. Directly applicable index prices are not currently available for delivered-to-ETNG and citygate purchases.

Gas Procurement Incentive Mechanism Benchmark Calculation

Under the PBRM, Atmos' actual monthly commodity cost of gas is compared to a monthly benchmark cost. Actual and benchmark costs are determined for each purchase made by the Company during a given month, and actual and benchmark costs are compared to evaluate the Company's performance under the PBRM.

For FOM baseload purchases made at Atmos' primary trading locations, the *Inside FERC* and NGI index prices for each transaction are averaged with the applicable monthly NYMEX closing price to determine the benchmark price. This benchmark price is applied to the actual quantity of gas purchased by the Company at each location to determine the applicable benchmark cost. For daily purchases at those same locations, the *Gas Daily* index price for each transaction location is applied to the actual quantity of gas purchased by the Company at that location to determine the applicable benchmark cost.

The PBRM provides for the benchmarking of long-term purchases (i.e., a term more than one month) using FOM index prices and a three-year average of premiums paid to suppliers to ensure that long-term supplies are available during peak periods. No long-term purchases were made during the review period, and it is unclear how the benchmark for these purchases would be calculated.

In addition to purchases made at its primary trading locations, and as previously described, Atmos also purchased gas at delivered-to-ETNG and citygate locations for which directly applicable index prices are not published. The PBRM provides that for citygate purchases, index prices are to be adjusted for benchmarking purposes for the avoided transportation costs that would have occurred if upstream capacity was purchased, less any demand charges that are paid to the supplier providing the citygate service.

If the total commodity cost of gas in a given month falls within a deadband of the total benchmark amount, no incentive savings or costs are deemed available for sharing under the PBRM. If the total commodity cost of gas falls outside of the deadband, the amount falling outside the deadband is available for sharing and is shared equally between Atmos' sales customers and the Company. The deadband in effect during the review period was 97.4 percent to 102 percent of benchmark costs, and the deadband has been extended by the TRA at these percentages through March 31, 2017.

Financial Instruments or Other Private Contracts

To the extent Atmos uses futures contracts, financial derivative products, storage swap arrangements, or other private agreements to hedge, manage, or reduce gas costs, any savings or costs will flow through the commodity cost component of the Gas Procurement Incentive Mechanism. The Company did not use futures contracts, financial instruments, or private contracts to manage, hedge, or otherwise reduce the volatility of its gas costs during the review period. The Company claims that the inclusion of hedging losses in the PBRM has discouraged the use of hedging.

3.1.2 *Capacity Management Incentive Mechanism*

To the extent Atmos is able to release daily transportation or daily storage capacity, or realize margins from off-system sales, the associated revenues and margins are shared by the Company's sales customers and the Company on a 90/10 percent basis, respectively, under the Capacity Management Incentive Mechanism. During the review period, Atmos released all of its transportation and storage capacity to AEM under the AMA. The fee the Company received from AEM was credited 90 percent to sales customers. The AMA fee credited to sales customers was allocated between Atmos' Tennessee and Virginia jurisdictions. Atmos did not engage in off-system sales activity during the review period because the Company had released all of its capacity to AEM under the AMA.

3.2 Review Period Gas Procurement Activity

Table 3 provides a review period comparison of FOM *Inside FERC* index prices for the locations at which Atmos purchased gas under the AMA and for which index prices are available. Atmos did not purchase gas at the NYMEX Henry Hub, but NYMEX prices are included in the price calculations for certain purchases under the AMA. Also identified are citygate variable delivered prices that reflect the variable pipeline and fuel costs associated with the delivery of gas to Atmos' citygate. Table 4 provides a review period monthly summary of the purchases made by Atmos under the AMA by location. As subsequently discussed, Atmos' purchases under the AMA appear consistent with least-cost procurement.

Atmos' West Tennessee service territory can only be served by Texas Gas. Applicable index purchase locations for Texas Gas supplies are Zone SL and Zone 1. As shown in Table 3, Zone 1-sourced supplies typically had a slightly lower delivered cost than Zone SL delivered supplies during the review period. As a result, the Company generally attempted to maximize Zone 1 purchases during the review period.

Atmos' Middle Tennessee service territory is primarily served by Columbia Gulf under firm transportation arrangements that provide for the direct delivery of Gulf Coast production region supplies. In addition, the Middle Tennessee service territory can be served by Texas Eastern under a firm transportation backhaul arrangement with gas purchased at the Texas Eastern interconnect with REX. The Middle Tennessee service territory requirements can also be met with delivered-to-citygate supplies available under the Company's AMA with AEM. These delivered-to-citygate supplies can be sourced on Columbia Gulf or Texas Eastern. Daily deliveries from Texas Eastern are generally required to meet certain operational requirements of the Middle Tennessee service territory. As shown in Table 3, Columbia Gulf firm transportation-sourced supplies were slightly lower cost than Texas Eastern REX firm

Table 3.
Atmos Energy Corporation
Summary of Review Period Prices by Pipeline Location
***Inside FERC* First-of-the-Month Index Prices**
($/Dth)

	Tennessee Gas Pipeline					Texas Gas		Texas Eastern	
Month	Zone 0/ 100 Leg	ZL 100/ 500 Leg	ZL/ 800 Leg	SONAT	Columbia Gulf	Zone SL	Zone 1	REX	NYMEX
April 2011	$4.13	$4.19	$4.21	$4.25	$4.18	$4.20	$4.18	$4.41	$4.24
May	4.24	4.34	4.38	4.40	4.29	4.29	4.29	4.51	4.38
June	4.23	4.33	4.29	4.34	4.26	4.37	4.25	4.48	4.33
July	4.25	4.36	4.35	4.37	4.30	4.31	4.27	4.47	4.36
August	4.26	4.33	4.29	4.37	4.32	4.32	4.29	4.48	4.37
September	3.81	3.84	3.83	3.85	3.81	3.92	3.80	3.91	3.86
October	3.67	3.70	3.71	3.74	3.67	3.69	3.65	3.83	3.76
November	3.42	3.49	3.50	3.49	3.46	3.51	3.44	3.60	3.52
December	3.28	3.36	3.33	3.36	3.29	3.40	3.29	3.59	3.36
January 2012	3.03	3.09	3.33	3.09	3.01	3.02	3.01	3.23	3.08
February	2.55	2.69	2.62	2.69	2.63	2.65	2.63	2.76	2.68
March	2.40	2.44	2.45	2.44	2.40	2.41	2.39	2.49	3.45
Yearly Average	**$3.61**	**$3.68**	**$3.69**	**$3.70**	**$3.64**	**$3.67**	**$3.62**	**$3.81**	**$3.78**
Variable Delivered	**$3.77**	**$3.82**	**$3.83**	**$3.94**	**$3.70**	**$3.78**	**$3.73**	**$3.83**	**N/A**
April 2012	$2.08	$2.14	$2.13	$2.16	$2.10	$2.14	$2.09	$2.19	$2.19
May	1.95	2.01	1.98	2.02	1.98	2.00	1.98	2.07	2.04
June	2.45	2.39	2.45	2.41	2.36	2.39	2.36	2.44	2.43
July	2.69	2.72	2.70	2.77	2.70	2.70	2.69	2.75	2.77
August	2.99	2.98	3.01	3.00	2.96	3.09	2.95	3.00	3.01
September	2.54	2.59	2.58	3.62	2.55	2.58	2.54	2.60	2.63
October	2.86	3.00	2.98	3.02	2.93	2.95	2.93	3.05	3.02
November	3.34	3.44	3.37	3.46	3.41	3.45	3.41	3.55	3.47
December	3.61	3.63	3.66	3.73	3.67	3.68	3.66	3.78	3.70
January 2013	3.28	3.35	3.33	3.40	3.31	3.32	3.31	3.43	3.35
February	3.15	3.22	3.18	3.25	3.19	3.20	3.19	3.30	3.23
March	3.35	3.39	3.39	3.45	3.38	3.41	3.38	3.50	3.43
Yearly Average	**$2.85**	**$2.91**	**$2.90**	**$2.94**	**$2.88**	**$2.91**	**$2.87**	**$2.97**	**$2.94**
Variable Delivered	**$2.98**	**$3.02**	**$3.01**	**$3.14**	**$2.93**	**$3.01**	**$2.96**	**$2.99**	**N/A**
April 2013	$3.90	$3.98	$3.95	$3.98	$3.95	$3.95	$3.95	$4.03	$3.78
May	4.10	4.26	4.13	4.16	4.12	4.11	4.12	4.19	4.15
June	4.07	4.17	4.12	4.17	4.10	4.12	4.08	4.17	4.15
July	3.61	3.71	3.67	3.71	3.65	3.65	3.65	3.70	3.71
August	3.36	3.42	3.41	3.42	3.40	3.41	3.40	3.49	3.46
September	3.46	3.52	3.51	3.54	3.50	3.51	3.50	3.61	3.57
October	3.41	3.46	3.45	3.47	3.45	3.46	3.45	3.56	3.50
November	3.41	3.47	3.45	3.49	3.46	3.47	3.45	3.60	3.50
December	3.68	3.76	3.73	3.78	3.74	3.74	3.74	3.84	3.82
January 2014	4.26	4.36	4.35	4.37	4.34	4.36	4.34	4.55	4.41
February	5.26	5.57	5.49	5.55	5.52	5.33	5.54	6.77	5.56
March	4.65	4.79	4.82	4.80	4.82	4.80	4.82	6.01	4.86
Yearly Average	**$3.93**	**$4.04**	**$4.01**	**$4.04**	**$4.00**	**$3.99**	**$4.00**	**$4.29**	**$4.04**
Variable Delivered	**$4.10**	**$4.19**	**$4.16**	**$4.29**	**$4.06**	**$4.11**	**$4.12**	**$4.31**	**N/A**

Table 4.
Atmos Energy Corporation
Summary of Review Period Purchases by Pipeline Location
(Dth)

	Tennessee Gas Pipeline				Texas Gas		Texas Eastern				
Month	Zone 0/100 Leg	ZL/500 Leg	ZL/800 Leg	Columbia Gulf	Zone SL	Zone 1	REX	DTI GSS	Nora Lateral	Other[1]	TOTAL

[1] Other purchases include Jewell Ridge Lateral, SONAT, Tennessee delivered to ETNG, Texas Eastern delivered, and Columbia Gulf delivered supplies.

transportation-sourced supplies during the review period, and as shown above in Table 4, Columbia Gulf-sourced supply purchases significantly exceeded Texas Eastern REX-sourced supplies. Delivered-to-citygate Columbia Gulf and Texas Eastern-sourced supplies are priced based on Gulf Coast index prices that are nearly identical. However, the price for delivered-to-citygate supplies includes a significant commodity adder which results in a variable delivered cost that exceeds the cost of firm transportation delivered supplies. Therefore, Atmos only purchased delivered-to-citygate supplies during peak periods during the review period.

Atmos' East Tennessee service territory is served only by ETNG. Operationally, most of the gas delivered *by* ETNG must be delivered *to* ETNG by TGP. Applicable index purchase locations for TGP supplies are Zone 0 – 100 Leg, Zone L – 500 Leg, and Zone L – 800 Leg. As shown previously in Table 3, Zone 0-sourced supplies were consistently the lowest cost, and as indicated by Table 4, more than 99 percent of the Company's TGP-sourced gas supply purchases were Zone 0 purchases. SONAT-sourced supplies can be delivered to ETNG for the East Tennessee service territory, but these supplies had a higher delivered cost than TGP-sourced supplies during the review period, as shown in Table 3. Atmos purchased delivered-to-Nora Lateral supplies from AEM to serve the East Tennessee service territory under a baseload arrangement that provided for 12,272 Dth/day. Although these Nora Lateral supplies had a higher delivered cost than TGP-sourced supplies, Atmos avoided the payment of TGP demand charges under this arrangement.

3.3 PBRM Performance

Atmos' PBRM performance results are filed with the TRA in an Annual Performance Based Ratemaking Plan Report (Annual PBRM Report) for each 12-month period ended March 31. TRA Staff performs a compliance audit of the Company's Annual PBRM Report. The TRA Staff's audits of the Company's review period Annual PBRM Reports revealed no material findings or errors.

Atmos' performance under the PBRM during the review period is summarized in Table 5. Savings available for sharing were realized under the PBRM in 35 of the 36 months in the review period. In January 2014, no savings available for sharing were realized. As shown in Table 5, during each year of the review period, the Company's share of incentive savings was limited by the $1.25 million PBRM cap, and totaled [redacted] for the review period (line 10c). Absent the cap, the Company's share of incentive savings would have been [redacted], or [redacted] higher.

Table 5. Atmos Energy Corporation Detail of Review Period Performance Based Ratemaking Mechanism Results				
	Year Ended March 31			
	2012	2013	2014	Total
PURCHASES				
1. Actual Costs				
2. Benchmark Costs				
3. Above/(Below) Benchmark				
4. Actual Benchmark				
5. Lower Benchmark Band				
INCENTIVE MECHANISM SAVINGS				
6. Gas Procurement				
7. Capacity Management				
8. Total Savings				
SAVINGS ALLOCATION				
9. Ratepayers 9a. Gas Procurement 9b. Capacity Management 9c. Subtotal				
10. Company 10a. Gas Procurement 10b. Capacity Management 10c. Subtotal				
11. Total Savings Allocation (9c.+10c.)				
Avoided Demand Charges				
Cap Impact on Company				

Atmos included avoided pipeline reservation (demand) charges in its PBRM benchmark calculations during the review period for both delivered-to-ETNG and citygate purchases. While delivered-to-ETNG purchases are not citygate purchases, Exeter's review indicates that avoided costs for these purchases have been included in the PBRM since its inception, and inclusion of avoided costs for these purchases would appear to be consistent with the intent of the PBRM. During the review period, Atmos only included avoided pipeline variable charges in its PBRM calculations under the Nora Lateral arrangement, which provided for the delivery of up to 12,272 Dth/day. Inclusion of variable charges under all eligible avoided cost arrangements would have increased the calculated PBRM savings amounts available for sharing. However, because of the $1.25 million cap on Atmos' share of PBRM savings, the inclusion of eligible avoided variable

pipeline charges would not have increased the Company's share of PBRM savings. Atmos began including avoided variable pipeline transportation charges in its PBRM calculations effective April 1, 2014.

Exeter's review of Atmos' performance under the Gas Procurement Incentive Mechanism component of the PBRM revealed that the Company's share of incentive savings was attributed [redacted] avoided demand charge savings. The Company [redacted] incentive savings by purchasing commodity supplies at less-than-index prices. The avoided demand charges included in the Gas Procurement Incentive Mechanism benchmark are summarized in Table 6.

Table 6.
Atmos Energy Corporation
Summary of Gas Procurement Incentive Mechanism Avoided Demand Charges

Arrangement	MDQ (Dth)	Year Ended March 31 2012	2013	2014	Total
Delivered Columbia Gulf & Tetco	20,000				
Barnsley Exchange – Columbia Gulf & Tetco	20,000				
Barnsley Exchange – Texas Gas	1,000				
Texas Gas Delivered to Barnsley	5,469				
Nora Lateral	12,272				
Nora Lateral	4,295				
Texas Eastern Delivered to DTI GSS	2,288				
Jewell Ridge Lateral	10,000				
Texas Eastern into ETNG	1,500				
TGP into ETNG	3,365				
Total					

3.4 Assessment of PBRM Review Period Calculations and Savings

Exeter generally found the specific pipeline services reflected in Atmos' avoided costs calculations to be reasonable, with one possible exception. The avoided transportation demand charges associated with the DTI storage fill arrangement with AEM were based on the costs associated with delivering Gulf Coast production area supplies to DTI storage by Texas Eastern. Exeter believes it would be more appropriate to base the DTI storage fill arrangement avoided costs on DTI firm transportation charges, as DTI capacity could have been used to deliver Appalachia-purchased supplies to GSS storage. In addition, DTI storage fill supplies were

priced based on an Appalachia index (REX).[2] The impact of reflecting this change, as well as the previously discussed inclusion of variable pipeline charges in the PBRM calculation and the subsequently discussed adjustment to Barnsley Storage exchange avoided costs, would not have affected Atmos' share of savings under the PBRM which was capped at $1.25 million per year during the review period.

Exeter's review found that the avoided costs associated with Atmos' Barnsley Storage exchange arrangements, which provided for the delivery of up to 30,000 Dth/day to the West and Middle Tennessee service territories, were calculated based on pipeline arrangements that provided for the delivery of only 21,000 Dth/day. Thus, the Company's avoided transportation costs for the review period appear to have been understated. However, accounting for this difference in the Company's avoided cost calculations would not have affected its share of savings under the PBRM due to the $1.25 million annual cap.

During the review period, TGP and Columbia Gulf filed Section 4 base rate proceedings with the Federal Energy Regulatory Commission (FERC). As a result, the demand charge rates of TGP and Columbia Gulf were in effect, subject to refund, during a portion of the Company's 2012 plan year. Under the FERC's rate-setting procedures, once final rates are approved, refunds are issued for the difference between revenues collected under subject-to-refund rates and final approved rates. Atmos' avoided demand charge cost calculations were based on subject-to-refund rates. Exeter finds this inappropriate because refunded demand charges are not pipeline demand charges that Atmos would have effectively paid, and therefore avoided, under the PBRM. Properly accounting for subject-to-refund rates would have reduced Atmos' calculated share of incentive savings by $336,000 during the 2012 plan year. However, the Company's share of incentive savings during the 2012 plan year was reduced by [redacted] due to the $1.25 million overall PBRM cap and, therefore, the Company's actual share of incentive savings would not have changed had the subject-to-refund rates been properly accounted for under the PBRM.

NYMEX closing prices are included in the benchmark calculation for Atmos' FOM purchases. Since Atmos does not purchase gas at the NYMEX Henry Hub, Exeter does not consider inclusion of NYMEX prices in the benchmark calculation to be appropriate. As shown previously in Table 3, NYMEX prices were consistently higher than the other Gulf Coast

[2] Since the conclusion of the review period, the Company has begun using a more appropriate Texas Eastern Market Zone 2 (M2) transportation path, as opposed to a Texas Eastern ELA transportation path, to calculate avoided transportation demand charges associated with the DTI storage fill arrangement. In the next AMA RFP, the Company will consider requesting DTI index pricing for the summer delivered supply service into storage.

production area index price locations at which the Company actually purchased its gas supplies during the review period. Inclusion of NYMEX prices in the benchmark distorts the comparison of Atmos' gas costs with those of other market participants.

4.0 STORAGE ACTIVITY

The Scope of Review for this investigation, as stated in the RFP, requires the review of Atmos' actual gas procurement transactions and costs, including storage activity, as reported in the Company's Actual Cost Adjustment (ACA) filings. The Company's ACA filings provide for a reconciliation of its actual gas costs and gas cost revenues. Atmos' ACA filings include the actual purchases and costs reflected in its PBRM filings. The Company's gas supply purchase transactions were reviewed in Section 3.0 of this Report and found to be reasonable. Section 4.0 of the Report reviews the Company's storage activity.

4.1 Storage Arrangements and Activity

As discussed in greater detail in Section 2.0 of this report, Atmos purchased bundled storage service from Texas Gas under Rate Schedule SGT and from Texas Eastern under Rate Schedule SS-1. Atmos purchased unbundled storage service from DTI under Rate Schedule GSS; from TGP under Rate Schedule FS-MA; from ETNG under Rate Schedule LNGS; from Saltville Storage under Rate Schedule FSS; and from Caledonia Storage under Rate Schedule FSS. The Texas Gas SGT and TGP FS-MA storage arrangements also provide Atmos with no-notice service. The Company also had access to the Barnsley Storage field. Atmos' storage arrangements during the review period are summarized in Table 7.

Table 7.
Atmos Energy Corporation
Summary of Review Period Storage Service Arrangements
(Dth)

Service	Rate Schedule	Maximum Withdrawal Quantity	
		Daily	Seasonal
Texas Gas Transmission	SGT	5,108	239,576
Texas Eastern Transmission	SS-1	3,000	180,000
Dominion Transmission	GSS	4,880	411,765
Tennessee Gas Pipeline	FS-MA	20,000	835,674
East Tennessee Natural Gas	LNGS	52,633	339,900
Saltville Storage	FSS	37,000	370,000
Caledonia Storage	N/A	10,000	500,000
Barnsley Storage	N/A	30,000	1,300,000
Total		**162,621**	**4,176,915**

Table 8 and Table 9 identify the monthly storage activity (injections/withdrawals) and the inventory balances under each of Atmos' storage arrangements at the conclusion of each month of the review period. Also identified in Table 8 and Table 9 are Atmos' storage inventory

balances as a percent of the Company's maximum seasonal contract quantity. The storage activity presented in these tables reflects Atmos' virtual dispatch use of storage, and not the actual physical use of storage by AEM under the AMA. Under the AMA, the Company was required to fill its non-no-notice storage ratably over the summer storage injection season (i.e., $1/7^{th}$ of total seasonal injection quantities in each of the seven storage injection months). Atmos generally adhered to this requirement except for the period of August through October 2012, when the Company significantly decreased August and October 2012 injections and significantly increased September 2012 injections. This benefited Atmos' sales customers because, as shown previously in Table 3, gas prices in September 2012 were significantly less than gas prices in both August and October 2012.

Table 8.
Atmos Energy Corporation
Summary of Review Period Storage Activity
(Dth)

	Texas Gas Transmission SGT			Barnsley Storage			Tennessee Gas Pipeline FS-MA			Dominion Transmission GSS			East Tennessee Natural Gas LNGS		
Date	Activity	Inventory	% Capacity	Activity	Inventory	% Capacity	Activity	Inventory	% Capacity	Activity	Inventory	% Capacity	Activity	Inventory	% Capacity
March 2011[1]															
April															
May															
June															
July															
August															
September															
October															
November															
December															
January 2012															
February															
March															
April 2012															
May															
June															
July															
August															
September															
October															
November															
December															
January 2013															
February															
March															
April 2013															
May															
June															
July															
August															
September															
October															
November															
December															
January 2014															
February															
March															

Table 9.
Atmos Energy Corporation
Summary of Review Period Storage Activity (cont'd)
(Dth)

	Saltville Storage FSS			Caledonia Storage			Texas Eastern SS-1			TOTAL Tables 8 and 9		
Date	Activity	Inventory	% Capacity	Activity	Inventory	% Capacity	Activity	Inventory	% Capacity	Activity	Inventory	% Capacity
March 2011[1]												
April												
May												
June												
July												
August												
September												
October												
November												
December												
January 2012												
February												
March												
April 2012												
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March												
April 2013												
May												
June												
July												
August												
September												
October												
November												
December												
January 2014												
February												
March												

Notes:
(1) March 2011 activity was prior to the period reviewed by Exeter.

4.2 Storage Planning Guidelines

Atmos has established general storage planning guidelines that identify the inventory levels the Company plans to maintain. Atmos targets to fill storage to 95 percent of capacity prior to the start of the storage withdrawal season (November 1). Atmos plans to cycle storage down to an inventory level of 5 percent of capacity by the conclusion of the storage withdrawal

season (March 31). Actual and planned inventory balances are summarized in Table 10. As shown, actual storage inventory balances were generally consistent with planned balances.

Table 10.
Atmos Energy Corporation
Planned and Actual Storage Inventory

	March 31		November 1	
Year	Planned	Actual	Planned	Actual
2011	5%	7%	95%	97%
2012	5%	19%	95%	94%
2013	5%	9%	95%	95%
2014	5%	7%	95%	--

For the winter of 2011-2012, the end-of-season storage inventory balance was 19 percent of capacity; slightly higher than the 5 percent planning target. This was largely attributable to weather that was approximately 30 percent warmer than normal. Exeter's review found that Atmos' storage inventory planning criteria were generally reasonable, consistent with the criteria used by other gas distribution companies, and the Company generally adhered to those criteria. Therefore, Atmos' review period storage activity generally appears reasonable, with one exception discussed below.

Exeter's only concern with Atmos' storage planning criteria and use of storage during the review period relates to ETNG LNGS service. A fuel retainage fee of 15.69 percent is currently assessed for LNGS service on all gas delivered for liquefaction. That is, 15.69 percent of the gas delivered to ETNG for liquefaction is retained by ETNG and used to operate the liquefaction facilities. This adds significantly to the cost of LNGS service. Atmos should limit the use of LNGS service to only those occasions when operationally necessary to meet customer requirements, rather than deplete LNGS inventory to 5 percent of capacity as the Company plans under its other storage services. Exeter notes that Atmos depleted its LNGS storage inventory, consistent with the targeted 5 percent planning criteria, through virtual dispatch during the review period and, therefore, incurred the fuel retainage fee when inventory was replenished. [redacted] In its comments on Exeter's draft report, the Company agreed to modify the way it uses ETNG LNGS service and limit withdrawals to those occasions when operationally necessary rather than to deplete LNGS inventory to 5 percent of capacity.

5.0 EVALUATION OF CAPACITY PORTFOLIO

5.1 Design Day Criteria

Atmos secures sufficient capacity resources to meet the forecasted design day requirements of its sales customers. The Company prepares separate design day forecasts for each of the towns or areas identified in Table 11. Also identified is the design day heating degree day (HDD) and wind speed criteria utilized by Atmos and the measuring weather station. It is the Company's standard methodology to use the coldest temperature since 1970 as its design day temperature criteria. For the wind speed criteria, Atmos generally utilizes the actual wind speed on the coldest day.

Table 11.
Atmos Energy Corporation
Design Day Criteria

Town/Area	Tennessee Service Territory	Weather Station	HDD	Wind Speed (mph)
Bristol	East	Tri-City Airport	75	10
Kingsport	East	Tri-City Airport	75	10
Johnson City	East	Tri-City Airport	75	10
Greenville	East	Tri-City Airport	75	10
Morristown	East	Tri-City Airport	75	10
Maryville	East	Knoxville	71	12
Shelbyville	East	Nashville	70	11
Columbia/Franklin/Marlboro	Middle	Nashville	70	11
Union City	West	Dyersburg	65	12

Atmos' design day temperature criteria reflect the coldest temperature recorded at each weather station in the last 45 years. However, with the exception of the Dyersburg weather station, the coldest temperature for each weather station was recorded in 1985. The coldest temperature for the Dyersburg weather station was recorded in 1989. Therefore, Atmos' design day criteria reflect the coldest temperatures recorded in the last 30 years. A recent American Gas Association (AGA) survey found that other gas distribution companies generally utilize design day criteria with a probability of occurrence of 1-in-30 years or less.[3] Therefore, Atmos' design day criteria are somewhat conservative. Of note, the design day temperature utilized for the Tri-City Airport weather station is 10.5˚F colder than the second coldest day recorded over the last

[3] For example, see: *LDC Supply Portfolio Management During the 2011-12 Winter Heating Season*, American Gas Association (EA 2012-14), July 31, 2012.

30 years. For the Knoxville weather station, the design day temperature is 8˚F colder. Exeter recommends that the Company investigate the prospect of selecting less extreme design day criteria for the Tri-City Airport and Knoxville weather stations.

5.2 Design Day Forecast

Atmos develops a linear regression model from daily historical data to calculate its design day forecasts for each of the towns or areas identified previously in Table 11. The dependent variable in the Company's models is daily sendout, and the independent variables include:

- Current-day HDD
- Prior-day HDD
- Prior-day sendout
- Current-day wind speed
- Day of the week
- Winter month

The design day forecast reflects the estimate of the linear regression model plus a margin of error. The margin of error is developed using the standard error of the forecast and a 95 percent confidence interval. Table 12 summarizes Atmos' design day forecasts for the review period. Also identified are the capacity resources maintained by the Company to meet design day forecasts and the effective reserve margin. Since the conclusion of the review period, Atmos has indicated that customer growth has created a design day deficiency in its Middle Tennessee service territory.

A requirement of Exeter's audit is to analyze and evaluate the manner in which Atmos includes the effect of energy conservation in its forecast of design day demands. Exeter's investigation found that the Company does not specifically include conservation on efficiency variables in its design day models. Atmos claims that energy conservation and improved efficiency are implicitly reflected in the Company's design day models because the models include the most recent sendout data, and this data reflects any conservation and efficiency gains. It is Exeter's experience that explicitly including conservation and efficiency in a gas utility's design day projections would not have a material impact on those projections. Moreover, as subsequently discussed, Exeter has identified a more significant concern with the predictive capabilities of Atmos' design day models.

Table 12. Atmos Energy Corporation Summary of Review Period Design Day Forecasts (Dth)			
Tennessee Service Territory	Winter Season 2011-2012	2012-2013	2013-2014
DESIGN DAY			
West	[redacted]	[redacted]	[redacted]
Middle	[redacted]	[redacted]	[redacted]
East	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]
AVAILABLE CAPACITY			
West	[redacted]	[redacted]	[redacted]
Middle	[redacted]	[redacted]	[redacted]
East	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]
RESERVE MARGIN			
West	[redacted]	[redacted]	[redacted]
Middle	[redacted]	[redacted]	[redacted]
East	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

5.3 Actual Peak Day Demands

Table 13 summarizes the natural gas requirements of Atmos' sales customers on the actual peak day observed during each winter season of the review period. Also presented is a comparison of actual peak day sales requirements and projected requirements under actual weather conditions using the Company's design day forecasting models, exclusive of the standard error. This provides an indication of the predictive capability of Atmos' design day forecasting models. Table 13 reveals that the Company's design day models have a tendency to underestimate actual demands during peak periods. Inclusion of a margin of error in the Company's design day forecast partially compensates for this tendency.

Table 13. Atmos Energy Corporation Comparison of Review Period Projected and Actual Peak Day Sales Requirements (Dth)						
Date	HDD	Wind Speed (mph)	Actual	Projected	Deviation	Percent Deviation
February 11, 2012	42	10	[redacted]	[redacted]	[redacted]	[redacted]
February 1, 2013	41	3	[redacted]	[redacted]	[redacted]	[redacted]
January 6, 2014	58	8	[redacted]	[redacted]	[redacted]	[redacted]

Exeter's review of Atmos' design day models revealed that the tendency to underestimate actual results is likely attributable to the inclusion of all winter days in the Company's regression analysis, including relatively warm days. To improve the predictive capability of the Company's design day models, Exeter recommends that Atmos evaluate including only relatively cold days in its analysis (e.g., days with an average daily temperature of 32˚F or below). Any indicated adjustments to the Company's design day requirements resulting from such an evaluation should also consider whether changes to the Company's design day criteria are appropriate for the Tri-City Airport and Knoxville weather stations, and whether a margin of error should continue to be included in the Company's design day forecasts. The previously identified AGA survey indicated that most natural gas distribution companies do not include a margin of error in their design day forecasts.

5.4 Balance of Capacity Resources and Customer Requirements

5.4.1 *Combined Tennessee Service Territories*

As shown previously in Table 12, the capacity resources available to meet design day demands and the forecasted design day demands for the Middle and East Tennessee service territories were in relative balance during the review period. For the West Tennessee service territory, capacity resources significantly exceeded forecasted design day demands. The excess capacity maintained for the West Tennessee service territory is subsequently addressed in Section 5.4.2 of this Report. Atmos' PBRM tariff provides that a capacity reserve margin of 7.5 percent or less is presumed to be reasonable. As shown in Table 12, even with the significant capacity reserve margin in the West Tennessee service territory, Atmos' capacity reserve margin was less than 7.5 percent during the review period. The Company has indicated that for planning purposes, it generally attempts to maintain a capacity reserve margin of 5 percent.

As shown in Table 12 and just explained, with the exception of the West Tennessee service territory, Atmos' design day capacity resources and requirements are in relative balance.

However, the Company maintains capacity resources in excess of its requirements during all other times of the year. Atmos' total firm sales requirements during the winter of 2013-2014 were approximately 13,000,000 Dth. Atmos' winter season capacity resources total approximately 25,000,000 Dth. Atmos' total firm sales requirements during the year ended March 31, 2014 were approximately 16,300,000 Dth. Atmos' annual capacity resources total approximately 52,000,000 Dth. The potential for Atmos to adjust its capacity resources to better match its load requirements is addressed in Section 5.5 of this Report.

The overall reasonableness of Atmos' capacity portfolio resources and requirements can also be assessed by a demand curve that compares the daily demands of the Company's customers with the capacity resources available to meet those demands. Figure 4, Figure 5, and Figure 6 present load duration curves for each of the Company's service territories based on actual demands for the winter of 2013-2014, which was approximately 12 percent colder than normal.[4] These demand curves illustrate the extent to which Atmos maintains capacity in excess of its customers' requirements.

5.4.2 *West Tennessee Service Territory*

The West Tennessee service territory, which is served exclusively by Texas Gas, maintains approximately 2,200 Dth more capacity than is currently required to meet the design day demands of sales customers. Atmos maintains 7,495 Dth of Texas Gas capacity under Rate Schedule SGT and 2,000 Dth of capacity under Rate Schedule STF to meet the design day demands of customers in its West Tennessee service territory. No demand charges are assessed under Rate Schedule SGT and the current variable charge is approximately 66 cents per Dth, while the variable charge under Rate Schedule STF is approximately 4 cents per Dth. While no demand charges are assessed under Rate Schedule SGT, Texas Gas' FERC tariff provides for a Minimum Contribution to Fixed Costs (MCFC) for SGT customers by zone. If the MCFC for a particular zone is not met on an annual basis, SGT customers in that zone are billed for the deficiency. Thus, while Atmos' use of SGT capacity will affect its MCFC charges, use of SGT capacity by other customers also affects Atmos' MCFC charges. During the review period, Atmos was billed $151,400 in MCFC deficiency charges.

SGT capacity provides a valuable no-notice service for Atmos and this capacity is grandfathered by Texas Gas, meaning that any SGT capacity turned back to Texas Gas cannot be reacquired in the future. Atmos contracts for STF capacity to reduce SGT commodity charges.

[4] Exeter used the winter of 2013-2014 because it was significantly colder than normal and Atmos only prepares a forecast of daily demands under normal weather.

Figure 4.
West Tennessee Service Territory
Load Duration Curve
(Winter of 2013-2014)

Figure 5.
Middle Tennessee Service Territory
Load Duration Curve
(Winter of 2013-2014)

Figure 6.
East Tennessee Service Territory
Load Duration Curve
(Winter of 2013-2014)

The Company claims that the combination of using SGT and STF Texas Gas capacity is less expensive during winters that are normal and colder than normal, and the MCFC charges incurred by Atmos during the review period were largely incurred during warmer-than-normal winters. Atmos' current STF contract with Texas Gas does not expire until 2019 and, therefore, it would be premature to evaluate whether adjustments should be made to Atmos' STF service quantities. The current amount of SGT capacity that Atmos maintains to serve its West Tennessee service territory is in relative balance with the design day requirements of its West Tennessee sales customers.

5.5 Capacity Portfolio Modifications

The RFP Scope of Review for Exeter's evaluation included examination and identification of: (a) the total fixed cost of Atmos' year-round firm transportation capacity to meet design day demands; (b) the total fixed cost of available seasonal firm transportation; and (c) the availability of seasonal firm transportation capacity. Exeter interprets this aspect of the scope of work as requiring an evaluation of whether Atmos' annual interstate pipeline transportation demand charges can be reduced by modifying the Company's current capacity portfolio. Exeter also evaluated the costs associated with the various storage services purchased by Atmos.

The charges associated with each interstate pipeline firm transportation service purchased by Atmos at the conclusion of the review period that was not exclusively used in conjunction with a storage service is summarized in Table 14. Also included for illustrative purposes are the demand charges associated with the delivered services provided by AEM under the AMA. As shown in Table 14, these charges currently total approximately $25.2 million per year. As indicated previously, Atmos maintains excess year-round firm transportation capacity. If possible, the Company could reduce its pipeline demand charges by decreasing year-round capacity and placing greater reliance on winter season capacity or delivered supply services.

Atmos has indicated that it has discussed the availability of multi-year, winter-only capacity with representatives of each of the interstate pipelines serving the Company's Tennessee service territories. Texas Gas was the only pipeline that would make a multi-year commitment to providing winter-only firm transportation under its STF service tariff, which Atmos is currently utilizing in its West Tennessee service territory. The Company has indicated that other pipelines such as TGP generally may offer winter-only service one winter at a time when they have capacity at the end of the summer season that they would not be able to otherwise market. Columbia Gulf indicated that in the past, there has been some amount of capacity that it cannot sell year-round and under these unique circumstances it has sold multi-

Table 14. Atmos Energy Corporation Summary of Firm Transportation Demand Charges[1]			
Pipeline Service/Contract	**Winter MDQ (Dth)**	**Average Monthly Demand Charge ($/Dth)**	**Annual Demand Cost**
Texas Gas Transmission			
SGT (G0750)	7,495	None	$0
STF (T-21438)	2,000	$8.2206	$110,539
Columbia Gulf Transmission			
FTS-1 (23481)	25,000	$3.1330	$939,900
FTS-1 (23188)	12,500	$3.1330	$469,950
FTS-1 (142156)	7,500	$4.2917	$386,253
FTS-1 (84924)	5,000	$4.2917	$257,502
FTS-1 (135019)	5,000	$4.2917	$257,502
Texas Eastern Transmission			
FT-1 (910800R1)	5,000	$4.5625	$273,750
Tennessee Gas Pipeline			
FT-A (69218)	53,656	$11.1769	$7,196,493
FT-A (92725)	10,000	$11.9375	$1,432,500
Southern Natural Gas			
FT (FSNG239)	7,658	$11.8800	$1,091,724
East Tennessee Natural Gas			
FT-A (410334R2)	20,000	$9.3500	$2,244,000
FT-A (30774R2)	84,588	$6.6800	$6,780,574
FT-A (34538R2)	27,500	$9.7250	$3,209,250
FT-A (410243R2)	1,500	$6.6800	$120,240
FT-A (410274R1)	1,500	$9.6740	$174,132
Delivered Columbia Gulf & Texas Eastern	20,000		
Nora Lateral into ETNG	16,567		
Jewell Ridge Lateral into ETNG	10,000		
Texas Eastern into ETNG	1,500		
TGP into ETNG	3,365		
Total			**$25,206,833**

Notes:
(1) Charges prior to Virginia jurisdictional allocation.
(2) Monthly demand charge assessed only in winter months of December through February.
(3) Monthly demand charge assessed only in winter months of November through March.

year, winter-only capacity. In this manner, some winter-only capacity on Columbia Gulf was acquired by Atmos Energy Corporation to serve its Mississippi service territory, but Columbia Gulf indicated that it only has two such contracts today. Both TGP and Texas Eastern have indicated that they do not offer new multi-year, winter-only capacity. A natural gas utility such as Atmos cannot ensure service reliability by deferring contracting decisions until just prior to the beginning of a winter season. The Company's claims concerning the unavailability of winter season arrangements are consistent with Exeter's experience.

The acquisition of winter seasonal capacity on TGP and ETNG has the potential to provide the most significant benefits to Atmos. When winter seasonal capacity is available on TGP, TGP uses an open-season process to award that capacity. Under this process, TGP solicits bids for multiple capacity offerings across all of its rate zones and awards the bid to the offer providing TGP with the highest net present value. Being located in TGP Zone 1, Atmos would be at a disadvantage under the open-season process because to ensure a successful bid, the Company would be required to bid on multiple offers, including those that do not provide for the ultimate delivery of gas to its system by ETNG. Exeter's review indicated that ETNG generally does not have year-round firm transportation capacity available and, therefore, does not offer winter seasonal capacity. Any capacity that is available on ETNG is generally new capacity made available through an incremental pipeline project.

The charges associated with each of Atmos' contract storage arrangements at the conclusion of the review period are summarized in Table 15. Also, where applicable and exclusively used for the delivery of gas to and/or from storage, the costs of the associated firm transportation contracts are identified. One of Atmos' more expensive review period storage service arrangements was with Caledonia Storage. Atmos terminated this arrangement effective March 31, 2015 and replaced Caledonia Storage with a lower-cost storage arrangement.

Table 15.
Atmos Energy Corporation
Summary of Review Period Annual Contract Storage Demand Charges[1]

	Storage			Transportation		
Pipeline Service/Contract	Seasonal Quantity (Dth)	Annual Cost	Unit Cost ($/Dth)	Annual Cost	Unit Cost ($/Dth)	Note
Texas Gas Transmission						
SGT (G0750)	239,576	--	--	--	--	(2)
Texas Eastern Transmission						
SS-1 (400244R2)	180,000	$215,520	$1.20	$0	$0	(3)
Dominion Transmission						
GSS (600047)	411,765	$180,300	$0.44	--	--	(4)
Tennessee Gas Pipeline						
FS-MA (3981)	835,674	$581,196	$0.70	--	--	(5)
East Tennessee Natural Gas						
LNGS (33245)	339,900	$624,905	$1.84	$2,936,496	$8.64	(6)
Saltville Storage						
FSS (420000R1)	300,000	$1,601,928	$5.34	--	--	(7)
FSS (420040R1)	70,000	$426,768	$6.10	--	--	(7)
Caledonia Storage						
FSS (Atmos 1)	500,000	$750,000	$1.50	--	--	(5)

Notes:
(1) Charges prior to Virginia jurisdictional allocation.
(2) No demand charges. Transported under Texas Gas SGT arrangement that also provides for the delivery of non-storage supplies.
(3) Service bundled with transportation service.
(4) Transported under Texas Eastern FT-1 arrangement that also provides for the delivery of non-storage supplies.
(5) Transported under TGP FT-A arrangements that also provide for the delivery of non-storage supplies.
(6) ETNG FT-LNGS Transportation Contract No. 30777R2.
(7) Transported under ETNG FT-A arrangements that also provide for the delivery of non-storage supplies.

6.0 ASSESSMENT OF PBRM INCENTIVES AND DESIGN

Section 6.0 of Exeter's Report beings with a comparison of Atmos' PBRM with the gas procurement incentive mechanisms of Piedmont Natural Gas Company and Chattanooga Gas Company. This comparison is provided for informational purposes as well as to assist in addressing several aspects of Atmos' PBRM identified in the RFP Scope of Review. In addition to Tennessee, Exeter's experience in reviewing PBRM-type mechanisms in other jurisdictions includes a now terminated program of Nicor Gas Company in Illinois, and ongoing programs of the four major natural gas utilities in Indiana (Northern Indiana Public Service Company, Vectren North, Vectren South, and Citizens Gas & Coke Utility). In a number of jurisdictions in which Exeter performs gas cost procurement reviews, capacity release revenues, off-system sales margins, and AMA fees are subject to sharing with the utility. These jurisdictions include Delaware, Louisiana, Massachusetts, Ohio, and Pennsylvania.

6.1 Comparison of Atmos PBRM with Similar Incentive Mechanisms of Other Tennessee Natural Gas Distribution Companies

6.1.1 *Atmos Performance Based Ratemaking Mechanism*

Atmos' PBRM consists of a Gas Procurement Incentive Mechanism and a Capacity Management Incentive Mechanism. The Gas Procurement Incentive Mechanism establishes a monthly benchmark against which the Company's monthly commodity cost of gas is compared. The monthly benchmark is based on published index prices for the locations at which Atmos' gas supplies are purchased. For delivered-to-ETNG and citygate purchases, the benchmark is adjusted for the avoided pipeline demand transportation charges that would have been paid for the delivery of gas to ETNG or Atmos' citygate, less any demand charges paid to suppliers providing the service. If the Company's total monthly commodity cost of gas falls within a deadband of the total monthly benchmark amount, there are no incentive savings or costs to share. If Atmos' total monthly commodity cost of gas is below the deadband, the Company is permitted to retain, as a reward, 50 percent of the difference. If the total monthly commodity cost of gas is above the deadband, the Company is denied recovery of 50 percent of the difference. During the period reviewed by Exeter in this Report (April 1, 2011 through March 31, 2014), [redacted] Gas Procurement Incentive Mechanism savings achieved by Atmos were attributable to avoided demand charges.

Under the Capacity Management Incentive Mechanism, to the extent Atmos is able to release transportation or storage capacity, or realize savings from off-system sales, the associated revenues and margins are shared by the Company's sales customers and the Company on a 90/10 percent basis, respectively. During the period reviewed by Exeter in this Report, all

Capacity Management Incentive Mechanism savings were attributable to fees received by Atmos under an AMA. Under the PBRM, Atmos is subject to an overall combined annual cap on incentive savings or costs under both incentive mechanisms of $1.25 million. Atmos' share of PBRM savings was limited by the $1.25 million cap during each plan year of the period reviewed in this Report.

6.1.2 *Piedmont Performance Incentive Plan*

The incentive mechanism under which Piedmont operates is referred to as the gas cost Performance Incentive Plan (PIP). Piedmont's PIP consists of three components: (1) a commodity procurement cost component; (2) a supplier reservation fee component; and (3) a capacity management component. Under the commodity procurement cost component of the PIP, Piedmont's actual total monthly citygate (delivered) commodity cost of gas is compared to a monthly benchmark cost. The actual total citygate commodity cost of gas includes the amount paid for gas supply commodity purchases, plus the applicable pipeline fuel and variable transportation charges associated with delivering gas from the purchase (receipt) point to Piedmont's system. The commodity procurement cost component provides for a 75 percent ratepayer and 25 percent Piedmont sharing of the difference between actual and benchmark costs. Unlike Atmos' PBRM, Piedmont's PIP does not include a deadband in calculating sharing amounts.

Under the commodity procurement cost component of the PIP, separate benchmarking procedures are used for first-of-the-month and daily spot market purchases. FOM benchmark costs are based on a price that reflects published index prices weighted by the amount of interstate pipeline receipt point capacity Piedmont reserves at each of its purchase locations. For example, if 60 percent of Piedmont's interstate pipeline capacity portfolio consisted of TGP capacity and the remaining 40 percent was Columbia Gulf capacity, Piedmont's FOM benchmark costs would be based on a 60/40 percent weighting of TGP and Columbia Gulf published FOM index prices, respectively. Daily spot market purchases are benchmarked against actual daily published index prices at the purchase location, similar to the approach used for Atmos' daily spot market purchases. Citygate purchases are benchmarked in the same manner as daily spot market purchases, with the exception that the maximum interruptible pipeline transportation charges are included in the benchmark rather than only including variable firm transportation charges. During Exeter's most recent completed review of Piedmont's PIP, which encompassed the period July 1, 2008 through June 30, 2011, all of the rewards realized by Piedmont under the commodity procurement cost component were generated by FOM purchases.

Under the supplier reservation fee component of the PIP, Piedmont is entitled to recover 100 percent of its gas supply reservation fees with no gain or loss potential. Under Atmos' PBRM, supplier reservation fees are included under the Gas Procurement Incentive Mechanism.

The capacity management component of Piedmont's PIP provides that the revenues (margins) realized from capacity release and off-system sales activities, as well as AMA fees, be subject to the same 75 percent ratepayer and 25 percent Piedmont sharing procedures as commodity procurement cost component savings/losses. Piedmont's PIP includes a $1.6 million sharing cap. During the period most recently reviewed by Exeter, the $1.6 million sharing cap did not limit Piedmont's rewards under the PIP.

6.1.3 *Chattanooga Performance Based Ratemaking Mechanism*

The gas cost incentive plan under which Chattanooga operates is also referred to as the Performance Based Ratemaking Mechanism. Chattanooga also operates under a separate Interruptible Margin Credit Rider (IMCR) that addresses the sharing of revenues (margins) generated from capacity release and off-system sales activities, as well as AMA fees.

Under Chattanooga's PBRM, each month, Chattanooga's actual commodity cost of gas is compared to a monthly benchmark amount. For FOM and daily purchases, the benchmark amount is based on the applicable published index price for the location at which the gas was purchased. For citygate purchases, Chattanooga's PBRM provides for the inclusion of the avoided transportation charges that would have been paid if upstream capacity were purchased versus the demand charges paid to the supplier.[5] If Chattanooga's total actual commodity gas costs for a plan year do not exceed the total benchmark amount by 1 percent, Chattanooga's gas costs are deemed prudent and the audit required by TRA Administrative Rule 1220-4-7-.05 is waived. If, during any month of a plan year, Chattanooga's commodity gas costs exceed the benchmark amount by greater than 2 percent, Chattanooga is required to file a report with the TRA fully explaining why costs exceeded the benchmark. There is no sharing of any savings or losses under Chattanooga' PBRM. Exeter's most recent review of Chattanooga's PBRM encompassed the period April 1, 2010 through March 31, 2013. For this review period, Chattanooga's actual gas costs exceeded benchmark costs by approximately $150,000, which was less than 1 percent of benchmark costs. Chattanooga's commodity gas costs did not exceed benchmark costs by 2 percent in any month during the period reviewed by Exeter.

[5] Chattanooga has interpreted upstream transportation charges to include variable charges, while Atmos has interpreted this provision to include demand charges. Inclusion of avoided demand charges in Chattanooga's PBRM calculation would not have changed Chattanooga's PBRM results.

Chattanooga's IMCR provides for a 50 percent ratepayer, 50 percent Company sharing of the revenues (margins) generated from capacity release and off-system sales activities, as well as AMA fees. There is no cap on the amounts eligible for sharing under the IMCR.

6.2 PBRM Deadband and Balance of Incentives

Atmos' PBRM currently provides that if the Company's actual total commodity cost of gas in a given month falls within a deadband of 97.4 percent to 102 percent of the total monthly benchmark amount, there are no incentive savings or costs to share. The PBRM also provides that at the end of each three-year period, the lower deadband percentage is to be reset to 1 percent below the most recent audited results of the PBRM. There are no provisions for adjustments to the upper deadband percentage under the PBRM.

On April 13, 2013, Atmos filed a petition with the TRA to, among other things, remove the deadband reset provision and permanently establish the deadband at 97.7 to 102 percent (Docket No. 13-00111). At the time of Atmos' application, it was anticipated that at the conclusion of the three-year period ended March 31, 2014, the deadband would be reset to 89.9 percent. In an order issued January 8, 2015, the TRA denied Atmos' request to remove the deadband reset provision permanently, and established the deadband at 97.4 to 102 percent for the three-year period April 1, 2014 through March 31, 2017. The TRA also set the scope of this triennial review to include an assessment of the deadband range. The Scope of Review in the RFP included these specific requirements:

- Review of the deadband provision within Atmos' PBRM tariff. Evaluate and provide expert information on:
    - Whether a deadband is necessary to achieve the intended purpose of the incentive plan (that is, to change purchasing behavior, which in turn results in gas being procured at a lesser price);
    - An appropriate deadband range, if one is necessary, to achieve the intended purpose of the incentive plan;
    - Whether there should be a reset mechanism for any deadband; and
    - If a deadband reset mechanism is recommended, the appropriate determinants for the reset (the Company's historical performance, the market performance, or some other factor).

The Scope of Review in the RFP also included the requirement to evaluate the balance of incentives between Atmos and its consumers in the Company's PBRM tariff, including the sharing percentages and overall cap on incentive savings available to Atmos. However, before addressing the balance of incentives, Exeter would note that the different sharing percentages applicable under the Gas Procurement Incentive Mechanism and Capacity Management Incentive Mechanism components of the PBRM provide the Company with the incentive to maximize savings under the Gas Procurement Incentive Mechanism rather than the Capacity Management Incentive Mechanism, because the Company's share under the former is greater than its share under the latter. Savings realized under the Gas Procurement Incentive Mechanism could be increased by reducing the commodity adders applicable for AMA gas supply purchases in exchange for a lower AMA fee. Exeter's review found that Atmos did not attempt to increase its share of savings by reducing commodity adders under the AMA.

Balance of Incentives – Capacity Management Incentive Mechanism. As just noted, Atmos' PBRM consists of a separate Gas Procurement Incentive Mechanism and a Capacity Management Incentive Mechanism. We first address the balance of incentives under the Capacity Management Incentive Mechanism. The Capacity Management Incentive Mechanism addresses the revenues (margins) realized from capacity release and off-system sales activities, as well as AMA fees, and provides for a 90 percent sales customer and 10 percent Company sharing. All Capacity Management Incentive Mechanism revenues available for sharing during the review period were generated from AMA fees. Atmos did not engage in capacity release or off-system sales activities during the review period because the capacity necessary to perform these activities was released to AEM under the AMA. It is Exeter's experience that the 90/10 percent sharing procedures are consistent with the sharing procedures adopted in other jurisdictions for AMA fees and provide a reasonable balance of incentives. A higher 25 percent Company sharing percentage would be reasonable and consistent with the sharing percentages adopted in other jurisdictions for capacity release revenues and off-system sales margins. Exeter recommends that under the Capacity Management Incentive Mechanism, the current 90/10 percent sharing procedures be maintained for AMA fees. Should Atmos elect to engage in capacity release and off-system sales activities in the future, 75/25 percent sharing procedures would be appropriate. These are the same sharing procedures provided for capacity release revenues and off-system sales margins under Piedmont's PIP.

PBRM Cap. Next, we address the $1.25 million PBRM cap. Consistent with the findings of a study evaluating gas procurement incentive mechanisms conducted by the National Regulatory Research Institute (NRRI), Exeter finds that caps can weaken or eliminate

incentives.[6] During each year of the review period, Atmos' share of PBRM savings was limited by the $1.25 million cap. Under the Gas Procurement Incentive Mechanism, incentive savings were realized during the review period as a result of entering into delivered-to-citygate gas supply arrangements that led to avoided demand charges that were included in the evaluation of savings. All of Atmos' delivered-to-citygate arrangements were in place at the start of the review period. The Company did not enter into any additional delivered-to-citygate supply arrangements that resulted in avoided demand charges during the review period. Although Atmos was able to and did enter into new contracts that extended the terms of existing delivered-to-citygate arrangements that expired at the conclusion of the review period, the Company has not entered into any additional delivered-to-citygate arrangements since the conclusion of the review period. Because of the $1.25 million PBRM cap, the Company was given little incentive to enter into additional delivered-to-citygate arrangements. This is not to suggest that Atmos neglected to pursue opportunities that may have been available. Exeter notes that the $1.25 million PBRM cap did reduce Atmos' share of savings under the PBRM which, as subsequently discussed, Exeter found to be in excess of those savings sufficient to provide the Company the incentive to pursue gas cost reduction opportunities. Because it reduces incentives under the PBRM, Exeter would recommend elimination of the $1.25 million cap if Exeter's other sharing provision recommendations were to be adopted.

Balance of Incentives – Gas Procurement Incentive Mechanism. Under the Gas Procurement Incentive Mechanism, incentive savings are shared on a 50/50 percent basis between sales customers and the Company. Although described by the PBRM tariff as a commodity cost incentive mechanism, the Gas Procurement Incentive Mechanism can be considered as providing for a performance comparison of the commodity prices paid by Atmos with market prices, and a performance comparison of the demand charges incurred under delivered-to-citygate arrangements with avoided pipeline demand charges. Exeter finds that the 50/50 percent sharing procedures adopted for the commodity cost performance comparison component of the Gas Procurement Incentive Mechanism provide a reasonable balance of incentives and are consistent with the sharing procedures adopted in other jurisdictions. However, Exeter finds that the 50/50 percent sharing procedures adopted for the demand charge performance comparison component of the Gas Procurement Incentive Mechanism provide an incentive that exceeds that which is necessary to encourage the Company to pursue gas cost reduction opportunities. The previously discussed NRRI gas procurement incentive mechanism study recommended that incentive rewards be sufficient to induce an appropriate level of effort

[6] *A Hard Look at Incentive Mechanisms for Natural Gas Procurement*, National Regulatory Research Institute, November 2006.

to perform the procurement role effectively and reduce gas costs. Atmos' PBRM effectively provided the Company with a 50 percent sharing of review period avoided demand charge savings for three years when, based on Exeter's experience, a reduced share of savings would have likely been sufficient to encourage the Company to aggressively pursue these gas cost reduction opportunities. Many of the incentive programs that Exeter has reviewed for other jurisdictions provide for a 75 percent ratepayer and 25 percent company sharing of savings, and this incentive has been more than adequate to induce companies to reduce gas costs. A 50/50 percent sharing procedure is more appropriate when a significant ongoing daily level of effort is required and the potential savings are relatively small. An ongoing daily level of effort is not required to realize avoided demand charge savings under a contract with a three-year term. Both the commodity cost performance comparison and the demand charge performance comparison included in the Gas Procurement Incentive Mechanism should have the same sharing percentages to eliminate unintended results or conflicting incentives. Eliminating the reset provision of the PBRM, as proposed by Atmos in Docket No. 13-00111, would have further distorted the balance of incentives under the PBRM. The design of the original PBRM, which provided for a reset of the lower end of the benchmark to reflect actual experience, assisted in maintaining a more reasonable balance of incentives.

Specifically with respect to balancing the incentives under the Gas Procurement Incentive Mechanism component of the PBRM and resetting the deadband, Exeter believes it would be appropriate to adjust the sharing percentages and to include a provision that accomplishes to some extent the intent of the deadband reset provision to limit the period over which avoided demand charges are subject to sharing. The recommendations that follow below recognize that the PBRM has been in operation since 1999, and this history should not be ignored when considering changes to the existing PBRM. That is, Exeter's recommendations could be modified if the current PBRM mechanism were not in place.

For those reasons previously discussed, Exeter believes a 75 percent sales customer and 25 percent Company sharing mechanism under the existing Gas Procurement Incentive Mechanism PBRM structure would be more than sufficient to encourage the Company to aggressively pursue new gas cost reduction opportunities. Consistent with the original three-year reset provision of the PBRM, Exeter recommends that avoided demand charges under a particular replacement arrangement be shared at the 75/25 percentages for no more than three years. After three years of sharing at the 75/25 percentages under a particular arrangement, a 90/10 percent sharing of avoided demand charges would be more reasonable. The 90/10 percent sharing would continue to apply when renewing an expiring contract and replacing that contract with a similar avoided demand charge arrangement. The 90/10 percent sharing for avoided

demand charge arrangements in place for more than three years would be separately calculated and determined.

Deadband. Exeter's recommended sharing procedures under the Gas Procurement Incentive Mechanism address the original intent of the deadband reset provision to limit the extent to which the Company would share in avoided demand charge savings. The previously discussed NRRI gas procurement incentive mechanism study found that deadbands can weaken incentives. Therefore, Exeter recommends that the deadband be eliminated. We note that Piedmont's PIP does not include a deadband.

PBRM Administration. As previously discussed, the Gas Procurement Incentive Mechanism can be considered as providing for a performance comparison of the commodity prices paid by Atmos with market prices, and a performance comparison of the demand charges incurred under delivered-to-citygate arrangements with avoided pipeline demand charges. To simplify administration of the savings and sharing calculations under the Gas Procurement Incentive Mechanism, Exeter recommends that these calculations be separately developed.

Other Demand Charge Reductions. Exeter's review noted that the current PBRM only includes the avoided demand charges associated with delivered-to-citygate gas supply arrangements. Exeter recommends that other efforts by Atmos to reduce demand charges should be considered for inclusion in the PBRM. These activities would include replacement of existing year-round transportation arrangements with less expensive arrangements or winter seasonal arrangements, and the replacement of the Company's relatively more expensive storage arrangements with lower-cost alternatives (see Table 14). Inclusion of these demand charge reductions would be consistent with the goal of the PBRM to encourage behavior that reduces purchased gas costs.

Summary. In summary, Exeter recommends that the following inter-related provisions be adopted under Atmos' PBRM:

- Under the Capacity Management Incentive Mechanism, AMA fees should be subject to 90/10 percent sharing, and capacity release revenues and off-system sales margins should be subject to 75/25 percent sharing;
- Under the Gas Procurement Incentive Mechanism, commodity savings should be subject to 75/25 percent sharing, and avoided demand charge savings should be subject to 75/25 percent sharing for up to three years. After three years, avoided demand charge savings should be subject to 90/10 percent sharing;
- The $1.25 million PBRM cap and the deadband should be eliminated; and

- Other efforts to reduce demand charges should be considered for inclusion in the PBRM. This would include the replacement of existing year-round transportation arrangements with less expensive arrangements or winter seasonal arrangements, and the replacement of the Company's relatively more expensive storage arrangements with lower-cost alternatives.

7.0 FINDINGS OF FACT, SUMMARY OF CONCLUSIONS, AND RECOMMENDATIONS

7.1 Findings of Fact

Exeter's review period findings of fact are as follows:

- Atmos purchased interstate pipeline services from Texas Gas Transmission, Columbia Gulf Transmission, Texas Eastern Transmission, Dominion Transmission, Tennessee Gas Pipeline, Southern Natural Gas Company, and East Tennessee Natural Gas during the review period;
- During the review period, Atmos operated under an Asset Management Agreement with its affiliate, Atmos Energy Marketing, which was approved by the TRA;
- Atmos served an average of 131,500 sales and transportation customers during the review period, and annual throughput averaged nearly 21,500,000 Dth;
- PBRM savings during the review period totaled $13.1 million, and Atmos' share of PBRM savings was $3.75 million;
- Atmos assigned all of its interstate pipeline capacity to AEM under an AMA during the review period and did not engage in capacity release or off-system sales activities; and
- Atmos did not engage in financial hedging activities to mitigate the volatility of its gas costs during the review period.

7.2 Summary of Conclusions

Exeter's investigation of Atmos' review period gas procurement activity under the PBRM has reached the following conclusions:

- Exeter's review found no violations of the RFP Procedures for the Selection of an Asset Manager and/or Gas Provider included in Atmos' PBRM tariff;
- Exeter's review found no violations of the Standards of Conduct guidelines included in Atmos' PBRM tariff;
- Atmos' gas supply purchases under its AMA with its affiliate, AEM, were consistent with least-cost procurement standards;
- The rewards Atmos realized under the Gas Procurement Incentive Mechanism component of the PBRM during the review period were [redacted];

- With one possible exception, Exeter found the specific pipeline services reflected in Atmos' avoided demand charge cost calculations to be reasonable. However, this one exception would not have affected Atmos' share of PBRM savings;

- Exeter's review of Atmos' PBRM incentive savings calculations found that several adjustments were appropriate; however, reflecting these adjustments in the savings calculation would not have affected Atmos' share of PBRM savings;

- Atmos' design day forecasting models revealed a tendency to understate actual results during peak periods;

- Atmos' storage inventory planning criteria were generally reasonable, were consistent with the criteria used by other gas distribution companies, and Atmos generally adhered to those criteria. As such, with one exception discussed later in the recommendations section, Exeter found Atmos' review period storage activity to be reasonable;

- With the exception of its West Tennessee service territory, Atmos' design day capacity resources and requirements are in relative balance. Atmos maintains capacity resources in excess of its requirements during all other times of the year; and

- Although a portion of Atmos' capacity portfolio currently consists of delivered supply services, Atmos could reduce its interstate demand charges by decreasing year-round pipeline capacity and placing greater reliance on delivered supply services or winter seasonal capacity; however, winter seasonal capacity alternatives to year-round capacity arrangements are not currently available.

7.3 Recommendations

Exeter's recommendations concerning Atmos' PBRM are as follows:

- NYMEX futures prices should be excluded from the benchmark calculations under the PBRM;

- Atmos should limit the use of East Tennessee Natural Gas Rate Schedule LNGS service to only those occasions when operationally necessary to meet customer requirements;

- The Company should investigate selecting less extreme design day criteria for the Tri-City Airport and Knoxville weather stations;

- To improve the predictive capability of the Company's design day forecasting models, Atmos should evaluate including only relatively cold days in its models, and any indicated adjustments to the Company's design day requirements resulting from such an evaluation should also consider whether changes to the Company's design day criteria for the Tri-City Airport and Knoxville weather

stations are appropriate and whether a margin of error should continue to be included in the Company's design day forecasts;

- At the appropriate time, Atmos should evaluate whether it should reduce its Texas Gas Rate STF transportation capacity entitlements;

- The 90 percent sales customer and 10 percent Company sharing provisions under the Capacity Management Incentive Mechanism component of the PBRM should continue to apply for AMA fees;

- A 75 percent sales customer and 25 percent Company sharing should apply under the Capacity Management Incentive Mechanism for capacity release revenues and off-system sales margins;

- The $1.25 million PBRM cap and deadband should be eliminated if Exeter's other PBRM sharing provision recommendations are adopted;

- A 75 percent sales customer and 25 percent Company sharing provision should be adopted under the Gas Procurement Incentive Mechanism component of the PBRM;

- Avoided demand charges should be shared under the Gas Procurement Incentive Mechanism component of the PBRM at the 75/25 percentages for no more than three years. After three years of sharing at the 75/25 percentages under a particular arrangement, a 90/10 percent sharing of avoided demand charges would be more reasonable. The 90/10 percent sharing should continue to apply when renewing an expiring contract and replacing that contract with a similar avoided cost arrangement; and

- Savings associated with the replacement of existing year-round transportation arrangements with less expensive arrangements or winter seasonal arrangements, and the replacement of the Company's relatively more expensive storage arrangements with lower-cost alternatives should be considered for inclusion under the PBRM as avoided demand charges.

APPENDIX A

Atmos Energy Corporation

Performance Based Ratemaking Mechanism Rider Tariff

PERFORMANCE BASED RATEMAKING MECHANISM RIDER

Applicability

The Performance-Based Ratemaking Mechanism (the PBRM) replaces the reasonableness or prudence review of the Company's gas purchasing activities overseen by the Tennessee Regulatory Authority (the Authority) in accordance with Rule 1220-4-7-.05, Audit of Prudence of Gas Purchases. This PBRM is designed to encourage the utility to maximize its gas purchasing activities at minimum costs consistent with efficient operations and Service reliability, and will provide for a shared savings or costs between the utility's customers and share holders. Each plan year will begin April 1. The annual provisions and filings herein will apply to this annual period. The PBRM will continue until it is either (a) terminated at the end a plan year by not less than 90 days notice by the Company to the Authority or (b) modified, amended or terminated by the Authority.

Overview of Structure

The Performance-Based Ratemaking Mechanism consists of two parts:

Gas Procurement Incentive Mechanism
Capacity Management Incentive Mechanism

The Gas Procurement Incentive Mechanism establishes a predefined benchmark index to which the Company's commodity cost of gas is compared. It also addresses the use of financial instruments or private contracts in managing gas costs. The net incentive savings or costs will be shared between the Company's customers and the Company on a 50% / 50% basis.

The Capacity Management Incentive Mechanism is designed to encourage the Company to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market. It also addresses the sharing of asset management fees paid by asset managers, and other forms of compensation received by the Company for the release and/or utilization of the company's transportation and storage assets by third-parties.
The net incentive benefits will be shared between the Company's customers and the Company on a 90% /10% basis.

The Company is subject to a cap on overall incentive savings or costs on both mechanisms of $ 1.25 million annually.

Gas Procurement Incentive Mechanism

Commodity Costs:

On a monthly basis, the Company will compare its commodity cost of gas to the appropriate benchmark amount. The benchmark amount will be computed by multiplying actual purchase quantities for the month, including quantities purchased for injection into storage, by the appropriate price index. For monthly spot

purchases, the price index will be a simple average of the appropriate *Inside FERC Gas Market Report,* and NYMEX indexes for that particular month. For swing purchases, the published *Gas Daily* rate for the first business day of gas flow will be used as the index. For long-term purchases, i.e., a term more than one month, these indexes will be adjusted for the Company's rolling three-year average premium paid to ensure long-term supply availability during peak periods. For city gate purchases, these indexes will be adjusted for the avoided transportation costs that would have been paid if the upstream capacity were purchased versus the demand charges actually paid to the supplier.

If the total commodity cost of gas in a month falls within a deadband of the total of the benchmark amounts, there will be no incentive savings or costs. If the total commodity cost of gas falls outside of the deadband, the amount falling outside of the deadband shall be deemed incentive savings or costs under the mechanism. Such savings or costs will be shared 50/50 between the Company's customers and the Company. The deadband shall be set at 97.4% to 102% until April 1, 2017. The consultant's review set to conclude in July 2015, required by Docket No 07-00225 should include a review of the deadband range, including an evaluation of an appropriate deadband and whether one is necessary. N

Financial Instruments or Other Private Contracts

To the extent the Company uses futures contracts, financial derivative products, storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs, any savings or costs will flow through the commodity cost component of the Gas Procurement Incentive Mechanism.

Capacity Management Incentive Mechanism

To the extent the Company is able to release daily transportation or daily storage capacity, the associated savings will be shared by the Company's customers and the Company on a 90/10 basis. The sharing percentages shall be determined based on the actual demand costs incurred by the Company (exclusive of credits for capacity release) for transportation and storage capacity during the plan year, as such costs may be adjusted due to refunds or surcharges from pipeline and storage suppliers. Any incentive savings or cost. resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA).

Affiliate Transactions

The following guidelines present the minimum conditions deemed necessary to ensure that affiliate transactions between the Company and its affiliate(s) do not result in a competitive advantage over others providing similar services. These guidelines will remain in effect as long as the Company is operating under a performance based ratemaking plan. We note that these guidelines may fail to anticipate certain specific methods by which such advantages may be conferred by the Company on its marketing affiliates. All parties should be aware that to the extent such instances arise in the future, they will be judged according to this stated intent.

Definitions:

Terms used in these guidelines have the following meanings:

I. Affiliate, when used in reference to any person in this standard, means another person who controls, is controlled by, or is under common control with, the first person.

2. Control (including the terms "controlling", "controlled by", and "under common control with"), as used in this standard, includes, but is not limited to, the possession, directly or indirectly and whether acting a lone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. Under all circumstances, beneficial ownership of more than ten percent (10%) of voting securities or partnership interest of an entity shall be deemed to confer control for purposes of these guidelines of conduct.

3. Marketing, as used in this standard, means selling or brokering natural gas to any person or entity, including the Company, by a seller that is not a local distribution company.

RFP Procedures for Selection of Asset Manager and/or Gas Provider:

1. In each instance in which Atmos Energy Corporation (Company) intends to engage the services of an asset manager to provide system gas supply requirements and/or manage its assets regulated by the Tennessee Regulatory Authority (TRA), the Company shall develop a written request for proposal (RFP) defining the Company's assets to be managed and detailing the Company's minimum service requirements. The RFP shall also describe the content requirements of the bid proposals and shall include procedures for submission and evaluation of the bid proposals.

2. The RFP shall be advertised twice in a thirty (30) day period as part of a systematic notification process. This thirty (30) day minimum period may be shortened with the written consent of the TRA Staff to a period of not less than fifteen (15) days.

3. The procedures for submission of bid proposals shall require all initial and follow-up bid proposals to be submitted in writing on or before a designated proposal deadline. The Company shall not accept initial or follow-up bid proposals that are not written, or that are submitted after the designated proposal deadline. Following receipt of initial bid proposals, and on a non-discriminatory basis, the Company may solicit follow-up bid proposals in an effort to obtain the most overall value for the transaction.

4. All initial and follow-up bid proposals shall be evaluated as they are received. The criteria for choosing the winning bid proposal shall include, at a minimum, the following: (a) the total value of the bid proposal; (b) the bidder's ability to perform the RFP requirements; (c) the bidder's asset management qualifications and experience; and (d) the bidder's financial stability and strength. The winning bid proposal shall be the one with the best combination of attributes based on the evaluation criteria. If, however, the winning bid proposal is lower in amount than any other initial or follow-up bid proposal(s), the Company shall explain in writing to the TRA why it rejected each higher bid proposal in favor of the lower winning bid proposal. The Company shall maintain records demonstrating its compliance with the evaluation and selection procedures set forth in paragraph 4 above. N

5. An incumbent asset manager shall not be granted an automatic right to match a winning bid proposal. If the incumbent asset manager desires to continue its asset management relationship with the Company after expiration of its asset management agreement, it shall submit a written bid proposal in accordance with the Company's RFP procedures. The bid proposal shall be evaluated pursuant to the procedures set forth in paragraph 4 above. N

6. The Company May develop additional procedures for asset management selection as it deems necessary and appropriate so long as such procedures are consistent with the agreed-upon procedures described herein. N

7. The Company shall retain all RFP documents and records for at least four (4) years and such documents and records shall be subject to the review and examination of the TRA staff. The Asset Manager shall maintain documents and records of all transactions that utilize the Company's gas supply assets. All documents and records of such transactions shall be retained for two years after termination of the agreement and shall be subject to review and examination by the Company and the TRA Staff. N

Standards of Conduct:

The Company must conduct its business to conform to the following standards:

I. If there is discretion in the application of tariff provisions, then the Company must apply such provisions relating to any service being offered in a consistent manner to all similarly situated entities.

2. The Company must strictly enforce a tariff provision for which there is no discretion in the application of the provision.

3. The Company must process all similar requests for services in the same manner and within the same period of time.

4. The Company may not give its marketing affiliate preference over nonaffiliated companies in natural gas supply procurement activities.

5. The Company may not give its marketing affiliate preference over nonaffiliated companies in its upstream capacity release activities.

6. The Company may not disclose to its marketing affiliate any information that the local distribution company receives from a non-affiliated marketer, unless the prior written consent of the parties to which the information relates has been voluntarily given.

7. To the extent the Company provides information related to its natural gas supply activities and upstream capacity release activities, it must do so contemporaneously to all nonaffiliated marketers, that have submitted a written request for such information to the Company.

8. To the extent the Company provides information related to natural gas services being offered to a marketing affiliate, it must do so contemporaneously to all non-affiliated marketers, that have submitted a written request for such information to the Company.

9. In transactions that involve either the purchase or receipt of information, assets, goods or services by the Company from an affiliated entity, the Company shall document both the fair market price of such information, assets, goods, and services and the fully distributed cost to the Company to produce the information, assets, goods or services for itself.

10. When the Company purchases information, assets, goods or services from an affiliated entity, the Company shall either obtain competitive bids for such information, assets, goods or services or demonstrate why competitive bids were neither necessary nor appropriate.

11. To the maximum extent practicable, the Company's operating employees and the operating employees of its marketing affiliate must function independently of each other. For the purposes of these guidelines, operating employees are those who are in any way involved in identifying and contracting with customers, locating gas supplies, making any and all arrangements with intervening pipelines and in any way managing or facilitating those contracted services.

12. The Company must maintain its books of accounts and records separately from those of its affiliate.

13. If the Company offers a discount to an affiliated marketer, it must make a comparable offer contemporaneously available to all similarly situated non-affiliated marketers.

14. The Company may not condition or tie its agreement to release its dedicated, stored, inventoried or optioned gas or supply contracts or upstream transportation and storage contracts to an agreement with a producer, customer, end-user or shipper relating to any service by its marketing affiliate, any services offered by the Company on behalf of its marketing affiliate, or any services in which its marketing affiliate is involved.

15. Prearranged, non-posted, capacity release transactions may not be entered into with any affiliate of the Company in any two consecutive thirty-day periods.

16. The Company must maintain a written log of tariff provision waivers which it grants. It must provide the log to any person requesting it within 24 hours of request. Any waivers must be granted in the same manner to the same or similar situated persons.

17. The Company shall maintain sufficiently detailed records that compliance with these guidelines can be verified at any time.

Complaints:

Any party may file a complaint relating to violations of these guidelines.

1. Any customer, marketer, or other interested third-party may file a complaint with the Authority relating to alleged violations of the affiliate standards set forth in these guidelines. At or before the time of filing, the complainant shall serve a copy of the complaint on the Company.

2. Within ten (10) days of service of the complaint upon the Company, the Company shall file a written response to the complaint with the Authority.

3. The Authority may hold hearings on any complaint filed or may take such other action (as it may deem appropriate), including requesting further information from the parties or dismissing the complaint.

4. After notice and opportunity for a hearing, should the Authority find that the Company has violated the standards contained in these guidelines, the Authority may impose any penalty or remedy provided for by law.

Reserve Margin

The Company may maintain a reserve of natural gas in excess of its projected peak day requirement and recover the cost of the reserve from their customers through the purchased gas adjustment (PGA). The projected peak day requirement shall be based upon the coldest day on record since 1970. All firm peak day capacity contracted for by the Company shall be considered as gas available to meet peak day demand. "Contract demand" shall be the amount of firm peak day capacity the Company is entitled to on a daily basis, pursuant to contract. The maximum peak day firm demand of the projected heating season shall form the base period demand to establish the Company's maximum peak day firm demand. A reserve margin of 7.5% or less in excess of the base period firm demand adjusted for specific gain or loss of customers and/or throughput on a specific case by case basis will be presumed reasonable.
All capacity available to meet the peak day demand in excess of an amount needed to meet the base period peak day demand plus a 7.5% reserve margin must be shown by the Company to be necessary to meet its customers' requirements before it can be included in the PGA. All capacity available to meet demand less than an amount of base period demand plus a 7.5% reserve margin is presumed to be reasonable unless a factual showing to the contrary is made.

Determination of Shared Savings

Each month during the term of the PBRM, the Company will compute any savings or costs in accordance with the PBRM. If the Company earns any savings, a separate below the line Incentive Plan Account (IPA) will be debited with such savings. If the Company incurs any costs, that same IPA will be credited with such costs. During a plan

year, the Company will be limited to overall savings or costs totaling *$1.25* million. Interest shall be computed on balances in the IPA using the same interest rate and methods as used in the Company's Actual Cost Adjustment (ACA) account. The offsetting entries to IPA savings or costs will be recorded to income or expense, as appropriate.

Savings or costs accruing to the Company under the PBRM will form the basis for a rate increment or decrement to be filed and placed into effect separate from any other rate adjustments to recover or refund such amount over a prospective twelve-month period.

Each year, effective October 1, the rates for all sales customers will be increased or decreased by a separate rate increment or decrement designed to amortize the collection or refund of the March 31 IPA balance over the succeeding twelve month period. The rate increment or decrement will be established by dividing the March 31 IPA balance by the appropriate sales billing determinants for the twelve months ended March 31. During the twelve-month amortization period, the amount collected or refunded each month will be computed by multiplying the sales billing determinants for such month by the rate increment or decrement, as applicable. The product will be credited or debited to the IPA, as appropriate. The balance in the IPA will be tracked as a separate collection mechanism. Each October 1 the unamortized amount of the previous year's IPA balance will be trued-up in the new rate increment or decrement.

Filing with the Authority

The Company will file calculations of shared savings and shared costs quarterly with the Authority not later than 60 days after the end of the quarter and will file an annual report not later than 60 days following the end of each plan year. Unless the Authority provides written notification to the Company within 180 days of such annual reports, the Incentive Plan Account shall be deemed in compliance with the provisions of this Rider. The Company will file calculations annually to verify the reasonableness of its reserve margin. (I)

Incentive and Rewards Program

The Company will have in place an incentive and rewards program for selected Gas Supply non-executive employees involved in the implementation of the Company's PBRM in a manner consistent with the benefits achieved for customers and shareholders through improvements in gas procurement and secondary marketing activities. Participants in the program will receive incentive compensation as recognition for their contribution to the customers and shareholders of the Company through lower gas costs and savings related thereto.

During the time this tariff is in effect, the Company will continue to have in place a gas supply Incentive and Rewards Program, the details of which will be provided to the Authority on an annual basis within 60 days of the beginning of each plan year. Unless the Company is advised within 60 days, said details will become effective. No filing for prior approval is required for changes in the performance measures.

Review Process

A comprehensive review of the transactions and activities related to Asset Management shall be conducted by an independent consultant. The initial review shall be started in the autumn of 2014 and any subsequent reviews determined to be necessary and appropriate by the TRA at the conclusion of the initial review shall be conducted at t order of the Authority. The TRA Staff, the Consumer Advocate, and Atmos shall make an effort to maintain a list of no less than five (5) mutually agreeable independent consultants or consulting firms qualified to conduct the aforementioned initial review. Any dispute concerning whether an independent consultant shall be added to the list shall be resolved by the TRA Staff, after consultation with Atmos and the Consumer Advocate. For the initial review, the TRA Staff shall select three (3) prospective independent consultants from that list. Each such consultant shall possess the experience and expertise necessary to conduct the initial review. The TRA Staff shall provide the list of prospective independent consultants to Atmos and the Consumer Advocate via electronic mail. Atmos and the Consumer Advocate shall each have the right, but not the obligation, to eliminate one (1) of the prospective independent consultants from the list by identifying the consultant to be eliminated in writing to the TRA Staff within thirty (30) days from the date the list is e-mailed. The TRA Staff shall select the independent consultant from those remaining on the list after Atmos's and the Consumer Advocate's rights to eliminate have expired. The cost of the review shall be reasonable in relation to its scope. Any and all relationships between the independent consultant and Atmos, the TRA Staff and/or the Consumer Advocate shall be fully disclosed and the independent consultant shall have had no prior relationship with either Atmos, the TRA Staff, or the Consumer Advocate for at least the preceding five (5) years unless Atmos, the TRA Staff and Consumer Advocate agree in writing to waive this requirement. The TRA Staff, the Consumer Advocate and Atmos may consult amongst themselves during the selection process; provided, however, that all such communications between the Parties shall be disclosed to each Party not involved in such communication in advance so that each Party may participate fully in the selection process. If, after the initial review, the TRA determines that there are material changes in the variables of the Company, such as customer mix and usage patterns, it may at that time order a subsequent review. If a subsequent review is ordered, the scope of the subsequent review will be established at the time that it is ordered, and the TRA will determine at that time whether an outside consultant is needed, provided that if a consultant is to be employed, the consultant will be selected in the manner set-forth above. The Consumer Advocate will be permitted to participate in the process and review the report of any subsequent review.

The scope of the initial review and any subsequent reviews ordered by the TRA may include all transactions and activities related either directly or indirectly to Asset Management, including, but not limited to, the following categories of transactions and activities: (a) natural gas procurement; (b) capacity management; (c) storage; (d) hedging; (e) reserve margins; and (f) off-system sales. The scope of each review shall include a review of each of the foregoing matters, as well as, such additional matters as may be reasonably identified by Atmos, the TRA Staff, or the Consumer Advocate relative to Asset Management.

Atmos, the TRA Staff, or the Consumer Advocate may present documents and information to the independent consultant for the independent consultant's review (and subsequent reviews) and consideration. Copies of all such documents and information shall be presented simultaneously to the independent consultant and all other Parties.

The independent consultant shall complete and issue a written report of its findings and conclusions by July 1 of 2015. The report deadlines may be waived by the written consent of the TRA Staff, Atmos, and the Consumer Advocate. The independent consultant shall make findings of fact, as well as identify and describe areas of concern and improvement, if any, that in the consultant's opinion warrant further consideration. Atmos, the TRA Staff, and/or the Consumer Advocate may cite the independent consultant's report to the Authority in support of recommendations or proposed changes, and the TRA Staff, Atmos, or the Consumer Advocate may support or oppose such recommendations or proposed changes.

The independent consultant's findings and/or recommendations shall not be binding on any Party or on the Authority, and in any proceeding in which the consultant's findings or recommendations may be considered, the Authority shall give all issues *de novo* consideration. Any changes to the Asset Management Agreement, the bidding process, the assets under management, or otherwise, whether adopted by agreement or pursuant to a ruling of the Authority, shall be implemented on a prospective basis only, and following normal expirations of any affected agreements.

The reasonable and prudent cost of the independent consultant's review shall be paid initially by Atmos and recovered through the ACA account. The TRA Staff may continue its annual audits of the performance-based ratemaking ("PBR") and the Annual Cost Adjustment ("ACA") account, and the review shall not in any way limit the scope of such annual audits.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
DOCKET TO EVALUATE ATMOS ENERGY CORPORATION'S GAS PURCHASE AND RELATED SHARING INCENTIVES	)	**No. 07-00225**

NOTICE OF FILING REDACTED REPORT OF CONSULTANT'S REVIEW

Atmos Energy Corporation respectfully files a redacted, public version of the review report issued by independent consultant Exeter Associates, Inc.

Respectfully submitted,

NEAL & HARWELL, PLC

By: _____

A. Scott Ross, #15634
Blind Akrawi, #23213
2000 One Nashville Place
150 Fourth Avenue, North
Nashville, TN 37219-2498
(615) 244-1713 – Telephone
(615) 726-0573 – Facsimile

Counsel for Atmos Energy Corporation

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 18th day of September, 2015.

( ) Hand	Vance Broemel, Esq.
( ) Mail	Wayne Irvin, Esq.
( ) Fax	Office of the Attorney General
( ) Fed. Ex.	Consumer Advocate and Protection Division
(X) E-Mail	P. O. Box 20207
	Nashville, TN 37202