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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

August 9, 2011

IN RE:

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 11-00124**

**NOTICE OF FILING BY UTILITIES DIVISION OF THE
TENNESSEE REGULATORY AUTHORITY**

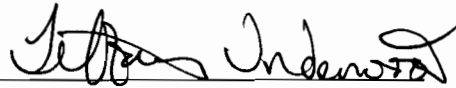
Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the 2011 Atmos Energy Corporation WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Atmos Energy Corporation (the "Company").
2. The Company's WNA filings were received on November 1, 2010, through April 30, 2011, and the Staff completed its audit of same on August 8, 2011.
3. On August 2, 2011, the Utilities Division issued its preliminary WNA audit findings to the Company, and on August 3, 2011, the Company responded thereto. A second finding was sent to the Company on August 8, 2011, on which the Company responded to that same day.

4. The preliminary WNA audit report was modified to reflect the Company's responses and a final WNA audit report (the "Report") resulted therefrom. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Utilities Division, the Company's responses thereto and the recommendations of the Utilities Division in connection therewith.

5. The Utilities Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read "Tiffany Underwood", is written over a horizontal line.

Tiffany Underwood
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of August 2011, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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Chairman
Tennessee Regulatory Authority
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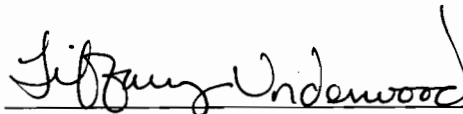

Tiffany Underwood

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 11-00124

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

August 2011

COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 11-00124

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COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 11-00124

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (“WNA”) Rider of Atmos Energy Corporation (“Atmos” or “Company”). The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers’ bills appropriately between November 2010 and April 2011. As a result of the WNA Rider, the Company refunded a net \$62,035 and \$54,845 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company’s total revenues is detailed in Section V.

The Audit Staff’s (“Staff”) audit resulted in one (1) finding regarding the WNA, showing that the Company **over-collected \$37,577.14** from customers. See Section VI for a description of the Staff’s finding. Except for the finding noted in this report, Staff concludes that Atmos is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority (“TRA” or the “Authority”) and included in the Company’s tariff (See Attachment 1).

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis:

- (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration (“NOAA”) actual heating degree days;
- (2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and
- (3) the Company's calculation of the WNA factors to Staff's calculations.

The Staff selected a sample of customer bills to verify that the WNA factor had been correctly applied to the bills. The Staff also examined each sample bill to determine whether the Base Rates and Purchased Gas Adjustments were billed correctly. Staff found a discrepancy on bills for one rate class. A description of the error can be found in Section VI.

The Utilities Division of the TRA is responsible for compliance audits of the regulated gas companies. Tiffany Underwood of the Utilities Division conducted this audit.

III. BACKGROUND INFORMATION ON THE COMPANY

Atmos, with its principal office at 810 Crescent Centre Drive, Franklin, Tennessee, is a wholly owned subsidiary of its parent company Atmos Energy Corporation, located in Dallas, Texas. Atmos Energy Corporation is a multi-state gas distributor, providing service to multiple communities in Tennessee. The gas to serve these areas is obtained from Atmos Energy Marketing ("AEM")^{1 2} and other suppliers, and delivered by four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission ("FERC"). The four interstate pipelines are East Tennessee Natural Gas ("ETNG"), Texas Eastern Transmission Corporation ("TETC"), Columbia Gulf Transmission Corporation ("CGTC") and Texas Gas Transmission Corporation ("TGTC").

ETNG provides service to Atmos in Tennessee for the Columbia, Shelbyville, Lynchburg, Maryville-Alcoa, Morristown, Bristol, Elizabethton, Gray, Greeneville, Johnson City and Kingsport areas.

TETC and CGTC provide service to Atmos in Tennessee for Murfreesboro, Nolensville, Franklin and adjacent areas in Rutherford and Williamson Counties.

TGTC provides service to Atmos in Union City, Tennessee and adjacent areas in Obion County.

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

On September 26, 1991, the Tennessee Public Service Commission³ ("TPSC") approved a three-year experimental Weather Normalization Adjustment Rider⁴ to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Gas Company, Inc. and United Cities Gas Company.⁵ The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year (See Attachment 1). On June 21, 1994, the TPSC issued an Order authorizing the above mentioned gas companies to permanently implement an amended version⁶ of the WNA Rider. Atmos is authorized to calculate WNA adjustments during the months of November through April of each year. The TRA Staff audits these calculations annually.

¹ Atmos Energy Marketing is the wholly owned marketing arm of Atmos Energy Corporation.

² *In Re: Petition of Atmos Energy Corporation for Approval of the Contract(s) Regarding Gas Commodity Requirements, Etc.*, Docket No. 08-00024.

³ By legislative action, the Tennessee Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. See Act of May 24, 1995, ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. See Tenn. Code Ann. § 65-4-104; see also Tenn. Code Ann. § 65-4-101 (a) (defining public utility).

⁴ See petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, *Order* (September 26, 1991).

⁵ On July 31, 1997, United Cities Gas Company was acquired by Atmos Energy Corporation located in Dallas, Texas. Following the acquisition, the Company continued operating as United Cities Gas Company, a division of Atmos Energy Corporation. On September 4, 2002, Atmos Energy Corporation filed tariffs with the Authority to cease the use of the name "United Cities Gas Company" and to reflect the corporate name of "Atmos Energy Corporation." Effective October 1, 2002, Atmos Energy Corporation announced that all divisions of the company would start doing business as Atmos Energy™.

⁶ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels helps minimize unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

Normal weather, however, rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and
- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved an experimental WNA mechanism, which became permanent on June 21, 1994, to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable revenue stream.

V. IMPACT OF WEATHER NORMALIZATION ADJUSTMENT RIDER

The following tables summarize a comparison of actual heating degree days (“ADD”) to normal heating degree days (“NDD”) by month for Atmos Energy Corporation during the 2010 - 2011 heating season, in each of its four service areas.⁷ During the past winter, overall, weather was 2.51% warmer in the Bristol area, 3.39% warmer in the Knoxville area, 0.19% warmer in the Nashville area, and 1.35% warmer in the Paducah area compared to normal weather.

Bristol:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2010	273	303	Warmer
November 2010	515	570	Warmer
December 2010	1077	843	Colder
January 2011	989	939	Colder
February 2011	634	745	Warmer
March 2011	483	561	Warmer
April 2011	189	306	Warmer
Total	<u>4,160</u>	<u>4,267</u>	Warmer

Knoxville:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2010	157	210	Warmer
November 2010	416	470	Warmer
December 2010	987	733	Colder
January 2011	891	841	Colder
February 2011	520	652	Warmer
March 2011	373	467	Warmer
April 2011	<u>134</u>	<u>227</u>	Warmer
Total	<u>3,478</u>	<u>3,600</u>	Warmer

⁷ Atmos’ service territory is divided into four (4) service areas for WNA calculation purposes. Each area’s WNA factors are calculated separately based on the actual degree days calculated from daily weather observations as reported by Tri-Cities Regional TN/VA Airport (KTTRI) for the Bristol area, McGhee Tyson Airport (KTYN) for Knoxville area, Nashville International Airport (KBNA) for Nashville area and Barkley Regional Airport (KPAH) for the Paducah area. The weather observations from these locations are reported to NOAA and the daily actual degree days are published by NOAA monthly in its *Local Climatological Data* report.

Nashville:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2010	141	190	Warmer
November 2010	416	460	Warmer
December 2010	941	744	Colder
January 2011	941	859	Colder
February 2011	589	664	Warmer
March 2011	426	462	Warmer
April 2011	<u>135</u>	<u>217</u>	Warmer
Total	<u>3,589</u>	<u>3,596</u>	Warmer

Paducah:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2010	182	236	Warmer
November 2010	500	531	Warmer
December 2010	1013	855	Colder
January 2011	1034	982	Colder
February 2011	711	750	Warmer
March 2011	504	530	Warmer
April 2011	<u>140</u>	<u>256</u>	Warmer
Total	<u>4,084</u>	<u>4,140</u>	Warmer

Note: Charts showing a comparison of actual degree days compared to normal degree days can be found at the end of this Section (pages 7-10).

The net impact that the WNA Rider had on the Company's revenues was that residential and commercial customers were **refunded** \$62,035 and \$54,845 respectively.⁸ This equates to a decrease in revenues from residential and commercial sales of 0.11% and 0.16% respectively. (See Table 1) During the previous year, colder than normal weather resulted in residential and commercial customers being **refunded** \$647,412 and \$438,903 respectively. (See Table 2 for a comparison of the last three heating seasons.)

⁸ While the weather overall in each service area was warmer than normal, indicating an expected overall surcharge to customers, the months of December and January were sufficiently colder to produce a net refund for the season.

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 2010 - April 2011**

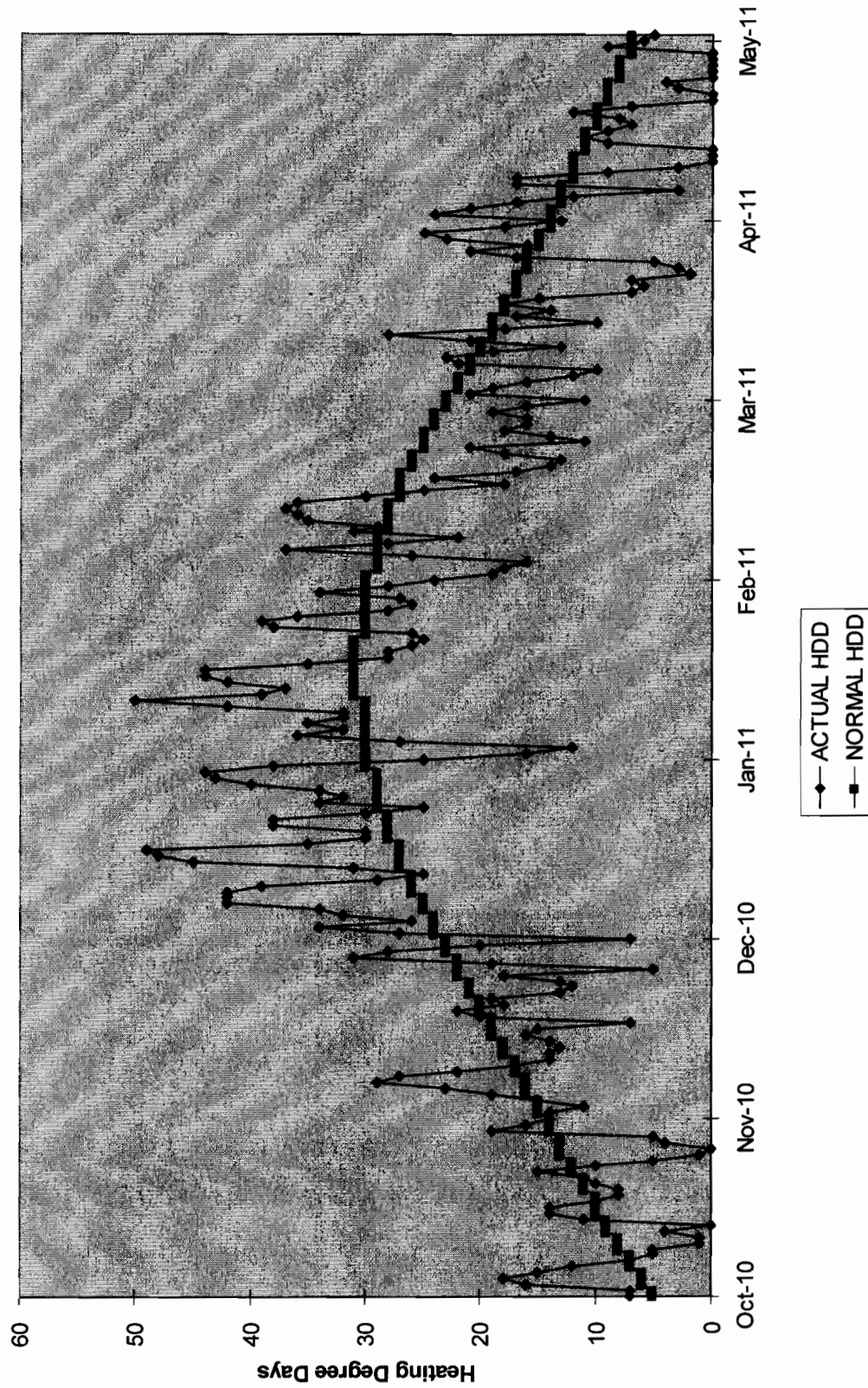
	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider On Revenues</u>
Residential Sales	(\$62,035)	\$55,472,150	-0.11%
Commercial Sales	(\$54,845)	\$33,765,361	-0.16%
Total	(\$116,880)	\$89,237,511	-0.13%

Table 2

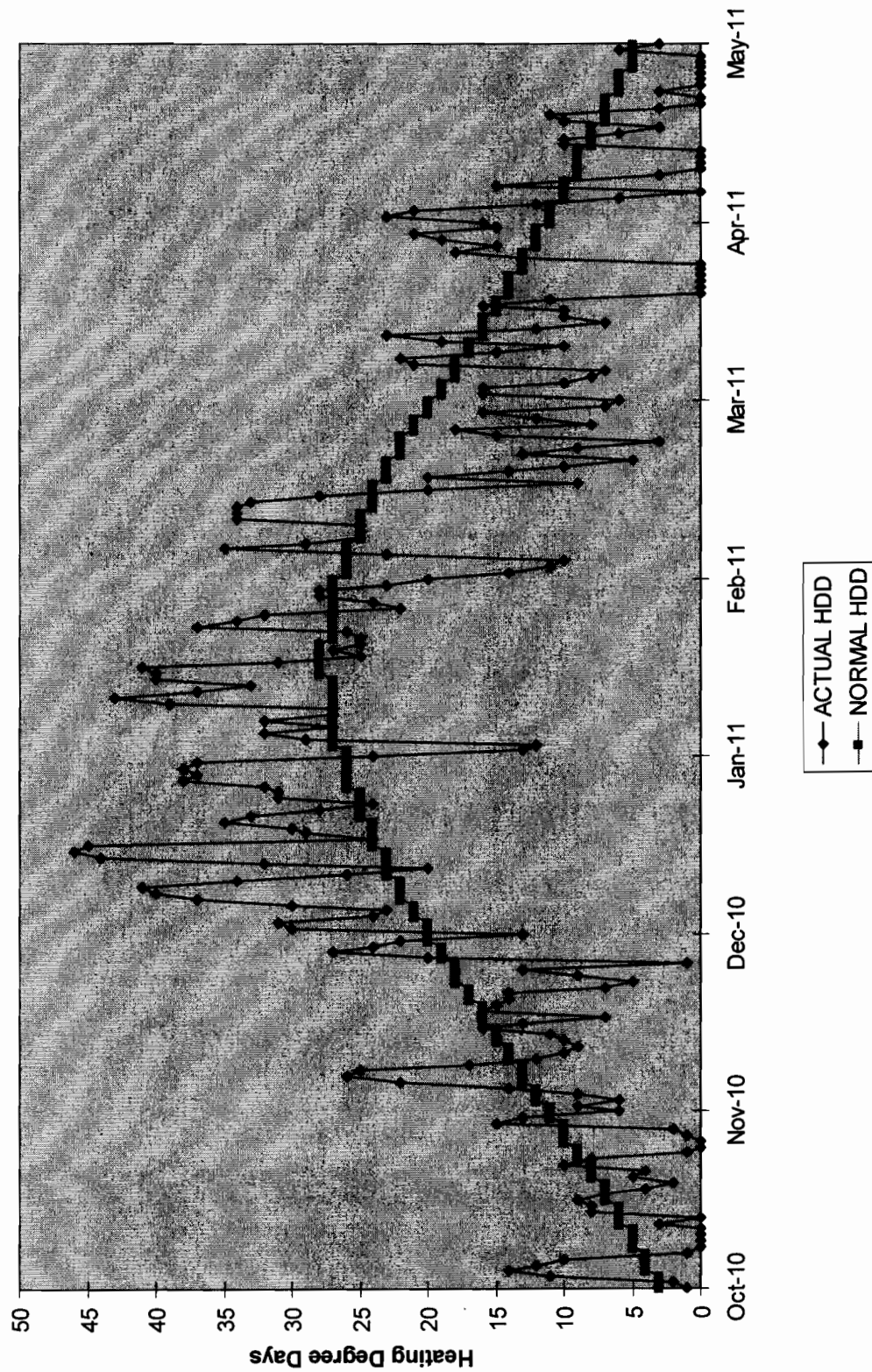
**Amount Surcharged (Refunded)
2008 - 2011**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
11/08-4/09	(74,770)	(29,313)	(104,083)
11/09-4/10	(647,412)	(438,903)	(1,086,315)
11/10-4/11	(62,035)	(54,845)	(116,880)
Total	<u>\$(784,217)</u>	<u>\$(523,061)</u>	<u>\$(1,307,278)</u>

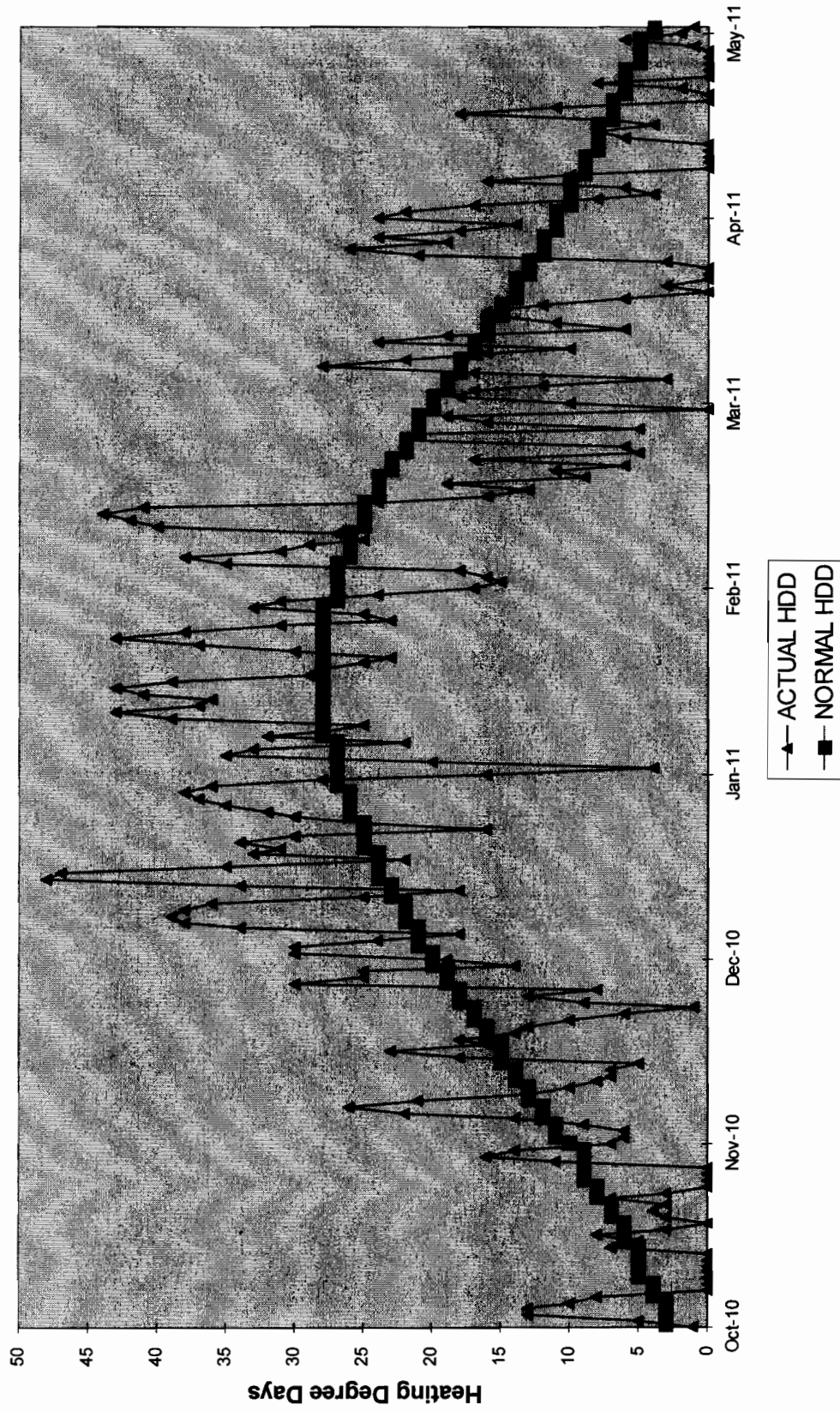
Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Bristol Weather Station



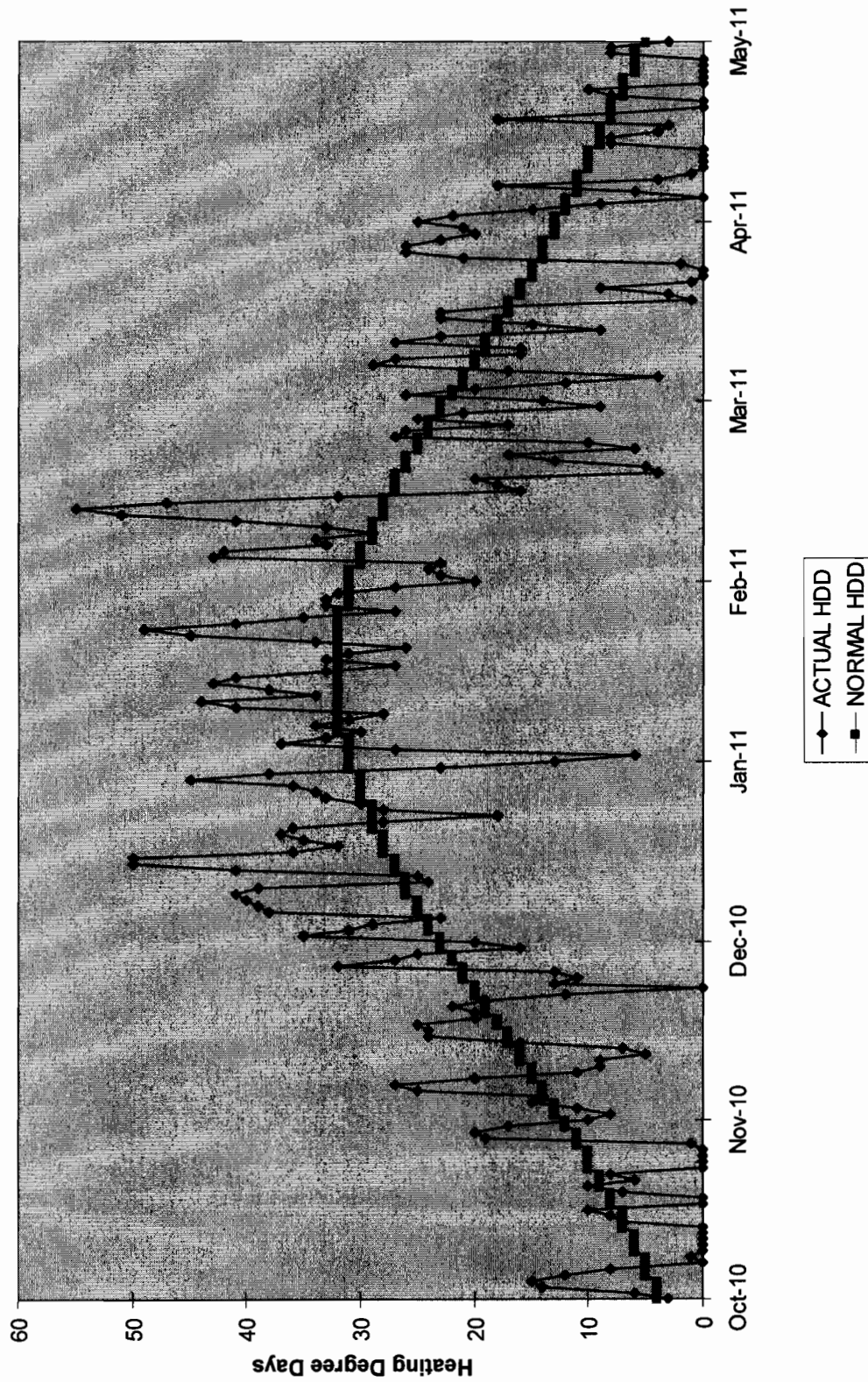
Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Knoxville Weather Station



**Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station**



Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Paducah Weather Station



VI. WNA AUDIT FINDINGS

As noted in Section I of this report, Staff's audit resulted in one WNA finding. The Company used incorrect actual heating degree days for eighteen (18) days out of the WNA period in their WNA calculations. This difference resulted in an over-recovery from the Company's customers of \$37,577.14. A detailed discussion of the finding follows.

As noted in Section II of this report, Staff's bill audit resulted in one finding. Staff detected a billing error when reviewing customer bills. This error is discussed in Finding #2.

FINDING #1:

Exception

The Company used inaccurate actual daily heating degree days in the calculation of the WNA factor.

Discussion

The audit period consisted of 848 weather observations (212 days in the period times four weather stations). Audit results indicate that the Company used inaccurate actual daily heating degree days in the calculation of the WNA factor for two (2) days for the Bristol weather station, three (3) days for the Knoxville weather station, nine (9) days for the Nashville weather station and four (4) days for the Paducah weather station for a total of eighteen (18) weather observations. These inaccuracies are due to differences in daily heating degree days published in NOAA's Local Climatological Data report⁹ and the daily heating degree days that the Company used in calculating its WNA factors.¹⁰ In order to timely bill its customers, the Company must obtain actual degree day information from its weather information source(s) on a real time basis. The WNA Rider and the Staff's audit of this Rider are based on the official NOAA publication. Therefore, Staff recognizes that discrepancies can be caused by the Company's weather information source through no fault of the Company.

Weather Station/ Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
<u>Bristol:</u>			
11/26/2010	18	19	1
2/24/2011	17	16	-1
		Total	<u>0</u>

Weather Station/ Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
<u>Knoxville:</u>			
11/04/2010	13	14	1
1/08/2011	38	39	1
3/10/2011	18	19	1
		Total	<u>3</u>

⁹ This published report is the official data supplied by NOAA and is the standard that the Staff uses to audit the Weather Normalization Rider.

¹⁰ See Table below for detail of the differences.

<u>Nashville:</u>			
10/28/2010	10	11	1
12/05/2010	32	34	2
12/12/2010	32	34	2
2/05/2011	28	29	1
2/13/2011	15	16	1
2/14/2011	11	13	2
02/15/2011	13	19	6
03/23/2011	2	3	1
04/16/2011	17	18	1
		Total	<u>17</u>

<u>Paducah:</u>			
12/11/10	24	25	1
12/12/10	40	41	1
12/29/10	24	23	-1
3/26/11	25	26	1
		Total	<u>2</u>
		Net of 4 stations	<u>22</u>

Recommendation

These heating degree day differences resulted in a **net over-recovery of \$37,577.14** in WNA revenues. Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends that the Company include the over-recovery in its next Actual Cost Adjustment filing, as has been its custom.

Company Response

Atmos Energy acknowledges the use of preliminary daily weather data for its monthly billing of WNA when actual NOAA data was not yet available for the 2010-2011 heating season. The Company agrees that **\$37,577.14** in net over-recovery is a reasonable assessment of the impact of the resulting billing inaccuracies. We agree to include this correction in the next ACA filing as recommended.

FINDING #2:

Exception

The Company used incorrect monthly customer charges and base rates to bill customers under rate code 210L.

Discussion

The Company did not update rate code 210L to include the new customer charges and base rates set in the last rate case in Docket No. 07-00105. This rate code is for Bristol residential customers who are billed during the winter months of October through April. These customers are then billed under rate code 210K from May to September (the summer rate code for Bristol residential customers). Staff has checked both rate codes for these customers and found that rate code 210L was the only customer class affected by this error. There were 58 customers billed under this rate code for approximately 15 months after the last rate case. Staff asked for volumes used during the winter months to calculate the under-recovery. There was approximately \$210.05 under-recovered due to incorrect base rates billed and approximately \$652.50 under-recovery due to incorrect customer charges, for a total under-recovery of \$862.55. The Company advised Staff that they have fixed their billing system to reflect current base rates and customer charges for rate code 210L customers.

Recommendation

The incorrect monthly customer charges and base rate charges resulted in a **net under-recovery of \$862.55** in revenues. Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends that the Company not back bill these customers. The cost to the Company to rebill these 58 customers would be more than the extra revenue received. Staff also recommends that the billing system update the monthly customer charges and the base rate charges for rate code 210L to coincide with the approved tariff.

Company Response

Atmos Energy acknowledges the error with billing the incorrect rate. The Company has corrected this rate going forward and will not retroactively bill our customers for this error.

VII. CONCLUSIONS AND RECOMMENDATIONS

The Company has satisfactorily responded to the Audit Staff's Finding #1. As stated in Section I, except for the finding noted, Audit Staff concludes that it appears that Atmos is correctly implementing the mechanics of its WNA Rider in all material respects. We recommend that the Company include the over-collection in its next Actual Cost Adjustment filing with the TRA. This is the method the Company has customarily used.

Regarding the billing error, Staff agrees with the Company's decision not to back bill customers. The incorrect amount of the customer charges was immaterial on a per customer basis and did not adversely affect any other customer. Further, the Company has corrected the billing system so that this error does not occur again. Staff recommends no further action be taken.

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDERProvisions for Adjustment

The base rate per therm/Ccf (100,000 Btu) for gas service set forth in any Rate Schedules utilized by the Tennessee Regulatory Authority in determining normalized test period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment." The Weather Normalization Adjustment shall apply to all residential and commercial bills based on meters read during the revenue months of November through April.

Definitions

For purpose of this Rider:

"Regulatory Authority" means the Tennessee Regulatory Authority

"Relevant Rate Order" means the final order of the Regulatory Authority in the most recent litigated rate case of the Company fixing the rates of the Company or the most recent final order of the Regulatory Authority specifically prescribing or fixing the factors and procedures to be used in the application of this Rider.

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment shall be computed to the nearest one-hundredth cent per therm/Ccf by the following formula:

$$WNA_i = R_i \frac{(HSF_i \quad (NDD-ADD) \quad)}{(BL_i \quad + \quad (HSF_i \times ADD))}$$

Where

- i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
- WNA_i = Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per therm/Ccf
- R_i = weighted average base rate of temperature sensitive sales for the i^{th} schedule or classification utilized by the Tennessee Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues