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BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE TENNESSEE

IN RE:	)	
	)	
AUDIT OF ATMOS ENERGY	)	
CORPORATION'S INCENTIVE PLAN	)	**Docket No. 11-00195**
ACCOUNT FOR PERIOD OF APRIL 1,	)	
2004 THROUGH MARCH 31, 2007	)	

DIRECT TESTIMONY OF REBECCA M. BUCHANAN ON BEHALF OF ATMOS ENERGY CORPORATION

Q. Will you please state your name and business address?

A. My name is Rebecca M. Buchanan, and my work address is 377 Riverside Drive, Suite 201, Franklin, TN.

Q. By whom are you employed and in what capacity?

A. I am employed by Atmos Energy Corporation ("Atmos Energy" or the "Company"), as Manager, Regional Gas Supply.

Q. Please provide a brief summary of your educational qualifications and experience.

A. I received my Bachelor of Business Administration Degree with honors from the University of Oklahoma, majoring in Accounting. I am a Certified Public Accountant in the state of Oklahoma and a member of the Tennessee Society of Certified Public Accountants. My professional experience includes six years of corporate accounting outside the gas industry in which I held the positions of Staff Accountant, Senior Accountant, Payroll Manager and Regional Accounting Manager. In 1991, I accepted the position of Analyst/Regulatory Affairs at United Cities Gas Company. With the 1997 merger of United Cities Gas and Atmos Energy Corporation, I transferred to the Company's Rate Department, where I was a Senior Rates Analyst until my promotion to Manager, Regional Gas Supply in August 2007.

Q. What are your responsibilities as Manger, Regional Gas Supply?

A. I am responsible for the development, implementation and direction of gas supply and procurement and reporting for the Kentucky/Mid States Division of the Company. The Kentucky/Mid-States Division consists of the following states: Tennessee, Georgia, Illinois, Iowa, Kentucky, Missouri and Virginia.

Q. Have you ever testified before this Commission?

A. Yes, in Docket No. 91-01712 and Docket No. 11-00034. In addition, I have filed testimony with regulatory agencies in the states of Georgia (Docket No. 27168-U, Docket No. 29554-U ,Docket No. 31492, and Docket No. 34118), Colorado (Docket No. 00S-668G), Kansas (Docket No. 181,940-U and 191-990-U), Kentucky (Case No. 99-070), Illinois (Docket No. 09-0365 and Docket No. 11-0616), Mississippi (Docket No. 05-UN-0503), Missouri (Case No. GR-2006-0387, Case No. GR-2008-0364, and Case No. GR-2009-0417), and Virginia (Case No. PUE930023 and Case No. PUE950008).

Q. When was the Company's Performance Based Rate-Making tariff enacted?

A. The Company's permanent performance-based rate making ("PBRM") tariff has been in place since 1999. By its terms, the PBRM Tariff provides that it will continue until it is either terminated on notice by the Company, or "modified, amended or terminated by the Authority." Tariff Sheet 45.1. The Company's PBRM Tariff has not been terminated by the Authority, and has remained in force since its adoption in 1999.

Q. Have you provided a copy of the Atmos Tariff.

A. Yes. A copy of the Company's PBRM Tariff during the relevant period (i.e. prior to the most-recent amendment expressly permitting the sharing of asset management fees) is included in Exhibit A.

Q. Have you also obtained copies of the pertinent Nashville Gas and Chattanooga Gas Company tariffs?

A. Yes. The Nashville Gas Performance Incentive Plan is included in Exhibit B hereto. This is the version that was in place prior to a subsequent amendment expressly providing that asset management agreement fees are to be covered. The Orders adopting the Nashville Gas plan also are included in Exhibit B. These documents were filed by Nashville Gas as exhibits to the Nashville Gas Company Response to the Energy and Water Division's Incentive Plan Account Audit Report in Docket Number 03-00489.

The Chattanooga Gas Company's PBR sharing provisions appear in its Interruptible Margin Credit Rider. A copy of the relevant Chattanooga Gas tariff page is attached hereto as Exhibit C.

Q. Describe the overall structure of the Atmos PBRM tariff.

A. The Atmos PBRM consists of two parts, a gas procurement incentive mechanism, and a capacity management incentive mechanism. The capacity management incentive mechanism is the part that is relevant to this case. Under the capacity management incentive mechanism, net incentive benefits are to be shared between the Company and customers on a 90% customer, 10% company basis.

Q. What is the tariff language governing the overall structure of the PBRM tariff?

A. As to the overall structure of the tariff, the tariff language provides as follows:

> 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. The net incentive benefits will be shared between the Company's customers and the Company on a 90%/10% basis.

Q. Is there additional tariff language governing the capacity management incentive mechanism?

A. Yes. With regard to the capacity management incentive mechanism, the tariff further provides as follows:

> 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 percentage caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA).

Q. Is there a cap on overall incentive savings?

A. Yes. The Atmos tariff includes an annual cap of $1.25 million on the Company's share of total savings from both the gas procurement and capacity management parts of the PBRM.

Q. Is there a further tariff provision?

A. Yes. Page 45 of the tariff contains a provision for a Capacity Assignment Credit Rider is included in Exhibit A. That provision in relevant part as follows:

> <u>Applicability</u>
> The intent of the Rider is to allow the Company during certain periods to enter into contractual agreements with others to temporarily assign or release capacity held by the Company. The specific terms of such assignment and/or release shall be set forth in a contract between the Company and the assignee/lessee. Contracts with customers within the Company's service territories shall be filed with and approved by the Tennessee Regulatory Authority.
>
> <u>Determination of Capacity Assignment Credit</u>
> Revenues related to commodity costs, fuel and related surcharges shall be a credit to the /deferred Gas Cost Account. Revenues related to any fixed demand costs, related surcharges and any additional administrative charges levied by the Company and/or its subsidiary shall be shared between the Company's customers and the Company on a 90%/10% basis.

Q. Has the Atmos PBRM resulted in savings to Tennessee ratepayers?

A. Yes. During the entire period in dispute (April 1, 2004 through March 31, 2011), Atmos earned Tennessee ratepayers more than $3.7 million in capacity release payments covered by its PBRM Tariff. As discussed further below, this is money that has to this point been credited 100% against the Company's gas costs (reflected annually in its Actual Cost Adjustment audits) and therefore flowed entirely to the benefit of Tennessee ratepayers. The issue here is whether the Company may recover its 10% share of the AMA up-front fee portion of these savings, in accordance with the terms of its approved PBRM tariff. Of the $3.7 million that Atmos has earned for ratepayers, Staff disputes the Company's right to recover a total of $376,198 over the entire seven-year period. Part of this disputed amount – $102,881 – is included in this docket covering the 2004 through 2007 period. At Staff's request, the rest will be covered in a subsequent docket.

Q. Explain how a regulated natural gas utility comes to hold unutilized capacity.

A. Like other gas companies, Atmos contracts with gas pipelines for transportation capacity and gas storage capacity that are sufficient to supply its customers' peak day needs. The requirement to meet peak day demands results in unutilized gas pipeline transportation and/or storage capacity on days when demand is below the peak. Capacity release transactions provide the mechanism by which the rights to the unutilized pipeline transportation and storage capacity can be sold. From the utility's point of view, capacity release is the means by which the utility can extract additional value for customers, and through the PBRM, itself. In qualified Asset Management Agreements, gas utilities like Atmos release capacity to an Asset Manager, or the utility makes the Asset Manager its agent to release or otherwise utilize and manage the assets under contract (i.e., the transportation and storage capacity). Of course, the utility always retains the first right to use all of the capacity to serve its customers. The Asset Manager may make use of otherwise unutilized pipeline and storage capacity when the utility's needs allow. An Asset Manager also may perform other related services for the utility such as balancing or scheduling the gas on the pipelines.

Q. Is an Asset Management Agreement a capacity release transaction?

A. Yes. At the core of an Asset Management Agreement is a capacity release transaction (whether the capacity is released directly to an Asset Manager, or whether the Company names the Asset Manager as its agent to release capacity). When the Company releases capacity outside of an AMA, in a piecemeal manner, there is no guarantee that other parties will bid on the capacity, and those who do bid may only want the capacity for a few days, only on peak days or for a month. An Asset Management Agreement, with its pre-arrangement of packaged capacity release/utilization over a contractual period of one or more years can bring a guaranteed payment. The Company can obtain greater value for ratepayers by releasing the capacity in bulk through an AMA than could be obtained by releasing the capacity in a series of individual transactions. An Asset Management Agreement provides the means to allow the bulk capacity utilization to occur. The utility allows an asset manager to manage its capacity in exchange for remuneration such as a fixed up-front payment. In the case of the Atmos Asset Management Agreements at issue here, an up-front payment was paid to Atmos on an annual basis. Of course, the capacity is recallable by the utility and, as indicated above, is primarily available to serve the utility's customers whenever it is needed.

Q. You indicated earlier in your testimony that the Atmos PBRM Tariff reads as follows "To the extent the Company is able to release daily transportation or daily storage capacity, the associated savings will be shared . . ." Since Atmos' AMA capacity release is prearranged for multiple years, how is this considered a release of daily transportation or storage capacity?

A. Pipeline capacity is stated in terms of daily quantities. When Atmos does a release, we are releasing the daily capacity, whether we perform that task once a day, once a month, or once a year, or longer. It is still a release of daily transportation or daily storage capacity regardless of the duration of that release. The Tariff does not specify that Atmos must perform the task of releasing every day, but only that we release our daily quantity. And if we are successful, we share in the savings. An AMA involves real capacity releases of daily transportation and daily storage capacity. The releases are done once at the beginning of the contract term. We release our daily capacity to our Asset Manager, which is considered a secondary market release. The value received for that release comes in the form of the annual payment we receive from the asset manager, pursuant to the terms of the Asset Management Agreement.

Q. How does the amount that Atmos can receive by releasing capacity in bulk through an Asset Management Agreement compare to what the Company could obtain by releasing capacity piecemeal?

A. The Company's experience has been that it can obtain greater benefit for the customer by releasing capacity in bulk through asset management agreements than can be obtained through piecemeal capacity release transactions. This has provided great benefits to the utility's customers, and assuming that the Company's position is accepted here, 90% of this benefit will continue to inure to the utility's customers. By entering into asset management agreements, Atmos has obtained far more for its customers than it ever could have obtained by engaging in piecemeal capacity release transactions.

Q. Does the use of Asset Management Agreements rather than piecemeal capacity release suggest that the Company is ineffective at releasing capacity on the secondary market?

A. No. To the contrary, the releases made pursuant to an Asset Management Agreement are effective capacity releases that bring real value to the Tennessee customers. The experience for Atmos has been that the packaged bulk capacity release in an Asset Management Agreement is inherently more valuable the same capacity would be if released piecemeal. It is this economic reality that has caused asset management to evolve into a relatively commonplace industry practice.

Q. Does the Company's use of an asset manager to maximize capacity utilization mean that the Company itself has nothing further to do in connection with these transactions?

A. No. It is inaccurate to suggest that by having an Asset Management Agreement Atmos personnel do not take an active role in the daily and long term administration, planning, and decisions regarding capacity and gas supply. Quite the opposite, Company personnel do extensive work to prepare for, enable and administer these transactions and to strive to maximize the value received from the capacity utilization. For example, in order to maximize the value of its capacity and generate savings for customers and the

Company, Atmos' Gas Supply Department and Planning Department personnel continually undertake activities both prior to and throughout the course of an Asset Management arrangement. When contracting for pipeline capacity, Atmos personnel use their gas supply expertise to negotiate the best terms without increasing the relevant demand charges. For example, this can be done by negotiating the best primary receipt and delivery points, negotiating secondary receipt and delivery points, and taking into consideration seasonal capacity requirement. Atmos personnel strive to add storage that is flexible and provides market value. Again, this is done with the goal of maximizing total value for the company's customers by working to obtain more valuable capacity while at the same time minimizing demand charges. Often times it is a matter of making smart choices among same-cost options. Where there is a choice among multiple pipelines or storage facilities, Atmos personnel focus on choosing the option that provides the most value given similar demand charges. The Asset Manager does not participate in these negotiations between the Company and the pipelines. The net result benefits Atmos customers by minimizing supply costs. Also, by maximizing the value of the capacity, greater value may be obtained from the Asset Management Agreement, for example in the form of a greater up-front asset management payment.

In addition, certain Planning Department activities take place with respect to all gas supply contracts, including Asset Management Agreements:

- Complete the design day forecasts, normal volume requirements by month and daily forecasts requirements by load study.
- Compare actual volumes to forecasted volumes to determine variance and further analyze variance by each component (i.e. resulting from weather difference, number of customers, etc.) annually for peak/design day and monthly forecasts.

- Modify forecasts as necessary and communicating those revisions to appropriate personnel to be utilized in revising supply purchase and storage plans.
- Evaluate transportation and storage capacity to ensure ability to meet peak days.
- Evaluate and optimize transportation portfolio considering alternative transportation options, upstream pipeline capacity and market changes that could affect the portfolio.
- Work with engineering and operations personnel to evaluate proposed interconnect agreements and other opportunities.

Company Gas Supply Department personnel also must manage and implement the Request For Proposal ("RFP") process that leads to the selection of an asset manager, which is no small task and often involves months of work and planning to assemble. Once the RFP itself is finalized, the process of publicizing the RFP and putting it out for bid must begin. During the bidding process, Company personnel respond to questions submitted by potential bidders requesting additional data and clarification of the RFP. In recent years, the Company has invested in developing and implementing its RFP website to improve the bidding process and to more efficiently expand the availability of the Company's RFPs to hundreds of interested parties. Once proposals are received, Company Gas Supply Department personnel evaluate the bids and determine which bid provides the best value for the customers. Again, this is no small task. After a bid is awarded, Atmos Gas Supply Department personnel then are responsible for working with the counterparty to draft the Asset Management Agreement and coordinating the execution of the contract with the Asset Manager, the Atmos Contract Administration Department, and the Atmos Legal Department. Concurrently Company personnel seek Authority approval of the resultant Asset Management Agreement, which includes the provision of supporting financial analyses and testimony. Finally, Atmos Gas Supply personnel work with the Asset manager to effectuate the actual capacity releases of all the applicable transportation and storage contracts to the Asset Manager.

Once an Asset Management Agreement is awarded and approved, Company personnel remain involved in implementing the Agreement on a regular basis, with responsibilities that include:

- Preparing daily forecasts used to monitor the system requirements compared to purchase nominations;
- Communicating and discussing the daily forecast data with the asset manager.
- Monitoring compliance with pipeline tariff parameters for transportation and storage.
- Determining and communicating incremental purchase nominations to the asset manager.
- Hosting weekly conference call with the asset manager discussing the actual to forecast requirements and communicating how to best manage variances to keep the storage contracts within the parameters of gas supply plan.
- Monitoring pipeline Critical Notices and communicating with asset manager to assure compliance.
- Developing seasonal purchase and storage plans and providing and discussing the plans with the asset manager.
- Monitoring the pipeline contract terms and coordinating with Atmos Planning Dept., Atmos Contract Administration and Atmos Gas Supply management to assure the pipeline transportation and storage contracts are reviewed and renewed, modified or terminated on a timely basis.
- Communicating to the asset manager any changes in the pipeline transportation and storage contracts.

Q. In dollar terms, how much is at issue here?

A. The only dispute concerns whether the Company is entitled to its 10% incentive share in the up-front Asset Management Agreement payments it has received. During the entire period in dispute (April 1, 2004 through March 31, 2011), the Company's 10% share totals $376,198.

Q. Can you break that down on a year-by-year basis?

A. Yes. The table below shows the calculation.

Year	Total Tennessee AMA	Atmos Share 10%
2004	$ 351,953	$ 35,195
2005	$ 351,938	$ 35,194
2006	$ 324,914	$ 32,491
2007	$ 324,428	$ 32,443
2008	$ 801,000	$ 80,100
2009	$ 801,000	$ 80,100
2010	$ 806,750	$ 80,675
Total	$3,761,983	$376,198

Q. Have the disputed amounts been in the hands of customers, or in the hands of the company?

A. Customers. In accordance with the way that the Company's PBR treats capacity release transactions, the Company has credited 100% of the up-front asset management agreement payments against its gas costs each year when filing its Actual Cost Adjustment (ACA) reports. The amounts that the Company is entitled to share under the incentive plan are recovered by the Company only after the Company's Incentive Plan Account Report has been approved by the Authority. The result is that customers have to this point retained the use of the disputed 10% share of AMA fees. The Company will recover its share only when and if the Authority approves the Company's Incentive Plan Account Report for a given year.

Q. Is the Company seeking to recover interest on the amounts it is entitled to recover under the PBR tariff for these past years?

A. No. Even though the Company has in a real sense lost the time value of the Incentive Plan Account payments for these past years, that is a loss the Company will bear. The Company does not seek to be compensated for the lost time value of these funds. It is not seeking to recover any interest on the amounts at issue.

Q. So, have customers been harmed by delay in submission and approval of the Incentive Plan Account reports?

A. No. If anything, delay has inured to the benefit of customers because the Company is not seeking to recover interest on the amounts at issue.

Q. Can you explain the delay in filing the Company's annual incentive plan account reports?

A. Yes. Following an audit of the Company's annual incentive plan account ("IPA") report for the period April 1, 2000 through March 31, 2001, Docket No. 01-00704 was opened to resolve an issue under the gas procurement incentive mechanism of the PBRM Tariff. Due to a dispute over how to calculate savings under the gas procurement incentive mechanism of the PBRM, Atmos and TRA Staff agreed to postpone filing of future IPA annual reports until Docket No. 01-00704 had been resolved. That agreement was placed on the record in a Motion to Consolidate and for Approval of Settlement Agreement at 3 (filed March 8, 2004). Unfortunately, a proposed settlement of the matter was opposed and litigation continued in Docket 01-00704 for several more years.

Following an initial order of the Hearing Officer on March 14, 2006, an appeal to the Authority resulted in an order dated May 13, 2008 affirming in part and vacating in part the Hearing Officer's initial order, and directing further proceedings. Ultimately, the case concluded on August 26, 2008 by entry of an Agreed Order of Dismissal with Prejudice of all remaining claims in the case.

Q. Following that ruling, was there a period of discussions and negotiations among Atmos and the TRA Staff about these incentive plan account reports?

A. Yes. There was a lengthy period of negotiations between Atmos and TRA Staff prior to the Company's formal filing of the PBRM reports for these years in August 2011. Those discussions were initiated by Atmos and began in early September 2010. During that period of discussions, the Company provided TRA Staff with the account information ultimately included in its formal PBRM filings, and there were negotiations concerning a number of issues, most of which were fully resolved prior to the Company's formal filing in August 2011. On August 23, 2011, the Company filed all of the outstanding Incentive Plan Account Reports, covering the period April 1, 2001 through March 31, 2011. *See* Petition in Docket No. 11-00137. Of course, as discussed below, the amount of the AMA payments provided to the Company had previously been provided to the TRA Staff in connection with the Company's annual actual cost adjustment ("ACA") audits.

Q. In the intervening years, had TRA Staff been made aware of the asset management agreement payments to Atmos that are at issue in this case?

A. Yes. During that period of time, these payments were disclosed to the TRA and its Staff in several ways.

They were included in the Company's annual ACA filings. In fact, TRA Staff raised the issue in their audit report concerning the Company's ACA filing for the year ended June 30, 2005. There, TRA Staff argued that the Company's PBRM Tariff should not include fees received for capacity released to an asset manager. In Item 2(c) of its audit recommendations, Staff recommended that the Authority open a separate docket to address the inclusion of asset management fees in the Company's PBRM. The Authority ultimately rejected this Staff recommendation, instead ordering that TRA Audit Staff and the Company meet to discuss the effects of incorporating the asset management arrangement into the PBRM. Order Adopting ACA Audit Report Of The Tennessee Regulatory Authority's Utilities Division, Docket No. 05-00253 at 4 (December 7, 2006). Unfortunately, due to the pendency of Docket No. 05-00258 (Phase II), over a period of several years the Company and TRA Audit Staff were unable to meet and resolve these issues.

The Company's 2008 Asset Management Agreement was filed with and approved by the Authority in docket number Docket No. 08-00024. The amount of the annual AMA payment to the Company featured prominently in that case.

With the passage of time, Staff ultimately withdrew its opposition to the allowance of AMA fees under the PBRM Tariff and recently in Docket Number 11-00034 a Staff-requested amendment to the Company's PBRM tariff was made, effective April 1, 2011, making explicit allowance for the inclusion of AMA fees. Staff's continued opposition to the inclusion of AMA fees for the intervening years puzzles me.

Q. You have testified that the Asset Management Agreement up-front payments have been included in the Company's annual Actual Cost Adjustment (ACA) filings. Is that correct?

A. Yes. In each of its annual ACA filings, the Company has credited the up-front payment against gas costs, to the benefit of customers. The net effect of this has been to reduce the Company's net gas costs by the amount of the AMA up-front payment, thus providing a dollar-for-dollar benefit to customers.

Q. Why did the Company handle the up-front AMA payments in this manner?

A. The Company treated the up-front payments in this way because that is the result that would be required under the terms of the Company's PBR tariff for capacity release transactions. The PBR tariff provides that the Company will offset demand costs by income from capacity release transactions against its demand costs. *See* Tariff Sheet No. 45.2 ("exclusive of credits for capacity release"). The Company complied with this provision by including its AMA up-front payments each year in its annual ACA filings.

Q. Were these ACA filings approved with the AMA up-front payments included?

A. Yes. Each year, Tennessee ratepayers received the benefit of these up-front AMA payments, which were credited against the Company's demand charges in accordance with the terms of the PBR tariff applicable to capacity release income.

Q. What would be the impact if AMA up-front payments were not considered to be payments for capacity release?

A. If the up-front AMA payments were not considered to be payments for capacity release, then there would be no requirement to credit them against the Company's gas costs. The net effect would be that the Company would retain 100% of the up-front AMA payments. Indeed, if these up-front AMA payments are deemed not to be capacity release payments, the Company will have the right to go back and adjust its ACA filings for these prior years by removing these AMA up-front payments from the gas cost calculations, pursuant to TRA Rule 1220-4-7-.03(1)(c)(3).

Q. What would be the net effect of that?

A. The net effect would be that instead of recovering 10% of these up-front AMA payments, pursuant to the terms of the PBR tariff, as the Company seeks here, the Company would recover 100% of those up-front payments.

Q. Has Atmos adopted procedures governing the RFP process for the selection of an Asset Manager?

A. Yes. Atmos voluntarily incorporated such procedures into its PBR Tariff and had those procedures approved by the Authority. After the Authority approved an amendment to the Chattanooga Gas Company tariff adopting RFP procedures for the selection of an asset manager, Atmos was looking ahead to the need to soon re-bid its own Asset Management Agreement. Atmos moved to amend its own PBRM Tariff to include RFP procedures identical to those adopted by Chattanooga Gas. These were approved in Docket No. 05-00253. Recognizing that Atmos had not been able to meet with the TRA Staff to discuss revisions to its affiliate rules due to the pendency of Docket No. 05-00258, and that the requested RFP procedures were identical to those approved by the Authority for Chattanooga Gas in Docket No. 04-00402, the Authority approved the Company's request to add RFP procedures for the selection of an asset manager to the terms of the Atmos PBRM Tariff. *See* Order Approving Tariff, Docket No. 05-00253 (December 6, 2007).

Q. These procedures for the selection of an Asset Manager were included in the PBRM Tariff at issue in this case?

A. Yes. The RFP procedures governing how the Company would go about obtaining bids for an Asset Management Agreement and selecting an asset manager were included in the same PBRM tariff that is at issue here. In other words, the same PBRM Tariff that provides for sharing of capacity release fees was amended to specifically include RFP procedures governing how the Company would ensure that it maximizes the value to ratepayers of an Asset Management Agreement. This of course includes the amount of the up-front AMA payment at issue here. Of course, the inclusion of RFP procedures in the PBRM Tariff is consistent with the Company's view that the up-front AMA payments that result from these procedures were intended to be included in the PBR mechanism.

Q. Have the Company's Asset Management Agreements been approved pursuant to the terms of these RFP procedures that were added to the PBRM Tariff?

A. Yes. In Docket No. 08-00024, Atmos submitted its 2008-2011 Asset Management Agreement for approval, pursuant to the RFP procedures that had been adopted and approved as part of the Atmos PBRM Tariff. By Order dated July 9, 2008, the Authority found that Atmos had complied with its tariff requirements in its bidding and awarding of the AMA and that based upon the detailed bid evaluations provided by the Company that the AMA would benefit customers. The Authority voted unanimously to approve the new Asset Management Agreement. Order Approving Contract Regarding Gas Commodity Requirements And Management Of Transportation/Storage Contracts, Docket No. 08-00024 (July 9, 2008). Although it is not involved in this case, in Docket Number 11-00034, the Company's most recent Asset Management Agreement (effective April 1, 2011) was approved by the Authority. This most recent Asset Management Agreement is not involved here because the Authority has approved an amendment to the Company's PBRM Tariff that resolves the controversy over whether up-front AMA payments are to be included in the PBR mechanism and shared 90%/10% with customers.

Q. How has the Authority resolved the issue regarding inclusion of up-front AMA payments in the Company's PBRM Tariff?

A. Just as it had done for Nashville Gas, the Authority has resolved the issue by approving a Tariff amendment that explicitly allows Atmos to include up-front AMA payments in the Company's incentive plan, and to share in those payments on a 90/10 basis pursuant to the terms of the plan. This amendment was requested by TRA Staff and approved without opposition, with an effective date of April 1, 2011 in docket number

11-00034. No other changes were made in the Atmos PBRM Tariff in conjunction with this amendment expressly allowing sharing of up-front AMA payments. A copy of that revised Tariff sheet is attached hereto as Exhibit D.

Q. In other words, the controversy about whether AMA up-front payments are to be included in the gas companies' incentive plans has been resolved?

A. Yes. With the exception of the few years at issue in this case, that issue has been resolved in favor of including AMA up-front fees within the terms of the incentive plan. All Atmos seeks in this case is for the Authority to treat those interim years in the same manner, just as it has done for the other gas companies.

Q. Is Atmos the only Tennessee gas company with a PBRM tariff and an asset management agreement?

A. No. Atmos is not the only gas company with a PBRM tariff or an asset management agreement. Like Atmos, Nashville Gas Company has both, and like Atmos, Nashville Gas has recognized that asset management fees are in reality capacity release fees and should be included in the capacity release mechanism of the PBRM tariff. Indeed, TRA Audit Staff made the same challenge to inclusion of asset management fees in the Nashville Gas Incentive Plan that Staff have made as to the Atmos PBRM.

Q. How does the Atmos PBRM tariff compare to that of the other Tennessee regulated gas companies?

A. With regard to the issues here – sharing of receipts from capacity release transactions, including upfront payments from bulk capacity release pursuant to the terms of an Asset Management Agreement – the Atmos tariff is materially identical to the Nashville Gas tariff that was in place during the relevant period of time. The Nashville Gas tariff is attached as Exhibit B.

Q. Please describe the relevant provisions of the Nashville Gas Company tariff during the relevant time period (i.e. prior to the amendment expressly addressing the inclusion of AMA fees).

A. The Nashville Gas Company tariff provided in relevant part as follows:

> SERVICE SCHEDULE NO. 14
> Performance Incentive Plan
>
> OVERVIEW OF STRUCTURE
> Nashville's Performance Incentive Plan is comprised of two interrelated components
>
> Gas Procurement Incentive Mechanism
> Capacity Management Incentive Mechanism
>
> The Gas Procurement Incentive Mechanism establishes a predefined benchmark index to which Nashville's commodity cost of gas is compared. It also addresses the recovery of gas supply reservation fees the treatment of off-system sales and wholesale interstate sale for resale transactions and the use of financial or private contract in managing gas costs. The net incentive benefits 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 Nashville to actively market off-peak unutilized transportation and storage capacity on upstream pipeline in the secondary market. The net incentive benefits or costs will be shared between the Company's customers and the Company utilizing a graduated sharing formula with sharing percentages for Nashville ranging between zero and fifty percent.

The Company will have a cap on incentive gains and losses. During the initial plan year, Nashville's overall gains or losses cannot exceed $1.6 million annually. Also as a part of the Performance Incentive Plan, Nashville submitted a Three Year Supply Plan and will obtain additional firm gas supply related thereto. Included in the Three Year Supply Plan is support for a capacity reserve margin.

* * *

CAPACITY MANAGEMENT INCENTIVE MECHANISM

To the extent Nashville is able to release transportation or storage capacity or generate transportation or storage margin associated with off system or wholesale sales-for-resale, the associated cost savings shall be shared by Nashville and customers according to the following sharing formula

Capacity Management Incentive cost savings as a percent of Nashville's annual transportation and storage demand costs	Sharing percentages Nashville/Customers (Percent)
Less than or equal to 1 percent	0/100
Greater than 1 percent but less than or equal to 2 percent	10/90
Greater than 2 percent but less than or equal to 3 percent	27/75
Greater than 3 percent	50/50

The sharing percentages shall be determined based on the actual demand costs incurred by Nashville (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 gains or losses resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA).

Q. What about the Chattanooga Gas Company tariff? How does it compare?

A. The Chattanooga Gas Company tariff is completely different. That tariff is attached as Exhibit C. Like the Nashville Gas tariff discussed above, the Chattanooga Gas tariff does not explicitly reference asset management agreements. But like the Nashville, Chattanooga Gas nonetheless has been permitted to share AMA up-front fees. The relevant portion of Chattanooga Gas Company's tariff provides as follows:

CHATTANOOGA GAS COMPANY
GAS TARIFF
TRA NO. 1 TENTH REVISED SHEET
NO 48

INTERRUPTIBLE MARGIN CREDIT RIDER

> This Interruptible Margin Credit Rider is also intended to authorize the Company to recover not more than fifty percent (50%) of the gross profit margin that results from transactions with non-jurisdictional Customers that rely on the Company's gas supply assets (all such transactions including off-system sales) should such transactions be made by the Company. The Company shall also recover through this Rider other costs authorized by the Authority.

Q. How does the Atmos sharing percentage compare to that of the other two gas companies?

A. Atmos has the lowest sharing percentage applicable to the capacity management incentive mechanism. Under the Atmos tariff, it receives 10% sharing. Nashville Gas had a sliding sharing percentage, under which it could receive up to 50%, and now receives a flat 25%. Chattanooga Gas Company's sharing percentage is 50%.

Q. Well, then how does the cap on total incentive recovery compare for Atmos against the other two gas companies?

A. Atmos also has the lowest cap, at $1.25 million per year. During the relevant time, the Nashville Gas Company cap was $1.6 million, and Chattanooga Gas Company has no cap.

Q. Has there been litigation over the inclusion of asset management fees by Nashville Gas in its Performance Incentive Plan?

A. Yes. For Nashville Gas the Authority held that it could include asset management fees and share those pursuant to its Incentive Plan tariff.

Q. Could you explain that further.

A. Yes. As with Atmos, resolution of whether the Nashville tariff should be amended to explicitly address asset management fees ultimately was assigned to a contested case proceeding (07-00225 for Atmos, and 05-00165 for Nashville). But the litigation with Nashville Gas took a different turn in one important respect. Whereas Atmos and TRA Staff had agreed to delay the filing of annual IPA reports pending resolution of Docket No. 01-00704, Nashville Gas continued to file its annual IPA reports. And, Nashville Gas continued to include capacity release fees received from its asset manager in its IPA filings despite opposition from TRA Audit Staff.

In Nashville Gas Docket No. 03-00489, TRA Audit Staff argued that fees received from an asset manager should be excluded from the incentive plan calculation under the terms of the Nashville Gas PBRM Tariff. Audit Staff recommended that the Authority suspend the Nashville Gas incentive plan pending resolution of whether asset management fees should be included. Nashville Gas opposed this recommendation, and ultimately the Authority rejected it. Nashville Gas was ordered to file a proposal to remedy the areas of concern. And of particular importance here, the Authority refused to suspend the Nashville Gas incentive plan while these issues were being addressed. *See* Order Adopting, In Part, IPA Compliance Audit Report Of Tennessee Regulatory Authority's Energy And Water Division, Docket No. 03-00489 at 2 (October 1, 2004). In the meantime, Nashville Gas would continue to receive credit under its incentive plan for fees received from its asset manager.

Q. Was that it?

A. No. In the following year, TRA Audit Staff again objected to the Nashville Gas IPA Report, again arguing that asset management fees should not be included. Staff again recommended that the Authority suspend the Nashville Gas incentive plan, pending the outcome of a separate docket to resolve whether asset management fees should be included in the PBRM Tariff. Nashville Gas opposed these recommendations, and the Authority ultimately rejected them, again declining to suspend the Nashville Gas incentive plan. For a second time, the Authority approved the Nashville Gas incentive plan filing for the plan year under review. The Authority ordered that a separate docket be opened to resolve the question whether asset management fees should be included in the Nashville Gas PBRM. In the meantime, however, the Authority declined to suspend the operation of the Nashville Gas incentive plan account or to disallow the inclusion of asset management fees pending resolution of this separate docket. Order Adopting Incentive Plan Account Filing Of Nashville Gas Company For Year Ended June 30, 2004, Docket No. 04-00290 (September 6, 2005).

Q. So, was Nashville Gas allowed to recover and share in asset management fees under its existing PBRM (Performance Incentive Plan) tariff?

A. Yes.

Q. And Nashville Gas was allowed to share asset management fees for the period of time before its tariff was amended to explicitly reference asset management agreement fees?

A. Yes. Atmos is merely seeking the same treatment that was afforded to Nashville Gas.

Q. What happened for Nashville Gas after its 2004 plan year?

A. In subsequent years, Nashville Gas continued to include asset management fees in its annual IPA filings. In response, TRA Audit Staff adopted the position that although they believed that the Nashville Gas tariff language and the original intent of the incentive plan did not allow for inclusion of asset management payments, Staff would not make an audit finding on this issue because the Authority had decided to address this issue separately in Docket No. 05-00165. In the meantime, the Audit Reports did not recommend that asset management fees be excluded from the Nashville Gas incentive plan account. The Authority ultimately agreed, and approved the Nashville Gas IPA filing in its entirety, including the asset management payments it had received. Order Adopting Incentive Plan Account Filing Of Nashville Gas Company For Year Ended June 30, 2005, Docket No. 05-00268 (July 13, 2006). A similar result was reached for the following plan year. Order Adopting Incentive Plan Account Filing Of Nashville Gas Company For Year Ended June 30, 2006, Docket o. 06-00220 (July 16, 2007).

Q. In summary, can you compare the situation for Atmos and Nashville Gas?

A. Yes. In sum, the incentive plans of Nashville Gas Company and Atmos both consist of two main parts, a gas procurement incentive mechanism and a capacity management incentive mechanism. Under the capacity management incentive mechanism, both companies have sought to include asset management fees, in recognition of the fact that such fees are payments for capacity release transactions that fall within the PBRM tariff provisions. For both companies, TRA Audit Staff have objected to the inclusion of asset management fees. For both companies, the Authority ordered that this issue be resolved in a separate docket. For Nashville Gas, it was Docket No. 05-00165. For Atmos, it was Docket No. 07-00225. Ultimately, for both gas companies, the Authority approved uncontested tariff amendments expressly providing that up-front AMA payments shall be included in each company's PBR and subject to sharing.

In the meantime, pending resolution of the issue, Nashville Gas continued to file its annual incentive plan account reports and to include asset management fees in the incentive plan calculation. As to Nashville Gas, the Authority ruled that it could continue to include asset management fees in its IPA calculations and continue to recover under its incentive plan on that basis. For Atmos, the annual filing of Atmos Energy's IPA reports was deferred pending resolution of Docket No. 01-00704. Now that Docket 01-00704 has been resolved, and the Company has filed its IPA Reports for the intervening years, Atmos merely seeks the same interim relief that was afforded to Nashville Gas. That is, for the years prior to 2011, Atmos respectfully submits that, like Nashville Gas, it should be entitled to include asset management fees in its incentive plan account and to recover in accordance with the terms thereof.

Q. Does this conclude your testimony?

A. Yes.

Rebecca M. Buchanan

Rebecca M. Buchanan

STATE OF TENNESSEE)
)
COUNTY OF Williamson)

SWORN to and subscribed before me this 22 day of February, 2012.

Deborah G. Sparkman

Notary Public

DEBORAH G. SPARKMAN STATE OF TENNESSEE NOTARY PUBLIC RUTHERFORD COUNTY

My Commission Expires: My Commission Expires: ~~September~~ 16, 2012

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 22nd day of February, 2012.

( ) Hand	Kelly Cashman-Grams, Esq.
(X) Mail	Deputy General Counsel
( ) Fax	Tennessee Regulatory Authority
( ) Fed. Ex.	460 James Robertson Parkway
(X) E-Mail	Nashville, TN 37243

( ) Hand	C. Scott Jackson, Esq.
(X) Mail	Senior Counsel
( ) Fax	Office of the Attorney General
( ) Fed. Ex.	Consumer Advocate and Protection Division
(X) E-Mail	P. O. Box 20207
	Nashville, TN 37202

EXHIBIT A

TO

DIRECT TESTIMONY OF REBECCA M. BUCHANAN ON BEHALF OF ATMOS ENERGY CORPORATION

CAPACITY ASSIGNMENT CREDIT RIDER

Applicability

The intent of this Rider is to allow the Company during certain periods to enter into contractual agreements with others to temporarily assign or release capacity held by the Company. The specific terms of such assignment and/or release shall be set forth in a contract between the Company and the assignee/lessee. Contracts with customers within the Company's service territories shall be filed with and approved by the Tennessee Regulatory Authority.

Determination of Capacity Assignment Credit

Revenues related to commodity costs, fuel and related surcharges shall be a credit to the Deferred Gas Cost Account. Revenues related to any fixed demand costs, related surcharges and any additional administrative charges levied by the Company and/or its subsidiary shall be shared between the Company's customers and the Company on a 90%/10% basis.

Filing With the Tennessee Regulatory Authority

The determination period of any revenues to be credited to the Deferred Gas Cost Account shall correspond with the Company's Reconciliation Year which ends June 30 each year. Supporting documentation of these transactions shall be maintained by the Company and made available to the Tennessee Regulatory Authority upon request.

Issued by: Patricia J. Childers, VP Rates and Regulatory Affairs **Effective Date:** October 4, 2002
Date Issued: September 4, 2002

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. 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, Natural Gas Intelligence,* 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.

Gas purchases under the Company's existing seven-year Nora supply contract effective November 1, 1993, will be excluded from the incentive mechanism. The Company will continue to recover 100% of the Nora and through its PQA with no savings or loss potential. If, upon the expiration of the current Nora contract if the Company continues to operate under the PBRM, the contract is renewed or renegotiated, it will be considered for inclusion in the PBRM at that time.

If the total commodity cost of gas in a month falls within a deadband of 97.7% to 102% 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. At the end of each three-year period, the deadband will be readjusted to 1% below the most recent annual audited results of the incentive plan.

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:

N

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.

N

2. The RFP shall be advertised for a minimum period of thirty (30) days through a systematic notification process that includes, at a minimum, contacting potential asset managers, including past bidders and other approved asset managers, and publication in trade journals as reasonably available. 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.

N

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.

N

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.

Standards of Conduct:

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

1. 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 a five-yea recurrence interval or the coldest day expected in a five-year period. All firm peak day capacity contracted for by the Company, excluding the daily delivery capacity of liquefied natural gas and propane storage facilities, 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 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.

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.

EXHIBIT B

TO

DIRECT TESTIMONY OF REBECCA M. BUCHANAN ON BEHALF OF ATMOS ENERGY CORPORATION

EXHIBIT A

TO

NASHVILLE GAS COMPANY'S RESPONSE TO
THE ENERGY AND WATER DIVISION'S
INCENTIVE PLAN ACCOUNT AUDIT REPORT

EXHIBIT

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B

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION
Nashville, Tennessee

May 31, 1996

IN RE: APPLICATION OF NASHVILLE GAS COMPANY, A DIVISION OF PIEDMONT NATURAL GAS COMPANY TO ESTABLISH A PERFORMANCE INCENTIVE PLAN

DOCKET NO. 96-00805

This matter came on to be heard on May 9, 1996 upon the application of Nashville Gas Company (Nashville or Company), a division of Piedmont Natural Gas Company, Inc., to establish a performance incentive plan (Incentive Plan). At the hearing, the following appearances were entered:

FOR NASHVILLE GAS COMPANY

Joseph F. Welborn
Bass, Berry & Sims
2700 First American Center
Nashville, TN 37238-2700

Jerry W. Amos
Amos & Jeffries, LLP
P O Box 787
Greensboro, NC 27402

FOR ASSOCIATED VALLEY INDUSTRIES

Henry Walker
Boult, Cummings, Conners & Berry, PLC
414 Union Street, Suite 1600
P O Box 198062
Nashville, TN 37219

FOR THE CONSUMER ADVOCATE DIVISION OF
THE STATE OF TENNESSEE ATTORNEY GENERAL'S OFFICE

Vincent Williams
Consumer Advocate
450 James Robertson Parkway
Nashville, TN 37243-0485

FOR UNITED CITIES GAS COMPANY

Mark G. Thessin
5300 Maryland Way
Brentwood, TN 37027

On April 22, 1996, Nashville filed an application for approval of the Incentive Plan According to the Company, the Incentive Plan will provide Nashville with incentives to acquire gas at the lowest reasonable cost consistent with a secure gas supply, eliminate the need for time consuming and costly prudence reviews, and reduce consumer gas rates.

The Incentive Plan as originally filed may be summarized as follows:

> **Effect on Existing Ratemaking Procedures.** Under the Incentive Plan, Nashville will be permitted to increase or required to decrease the margin component of its rates to reflect its performance gains or losses. No other changes would be required in existing ratemaking procedures. Nashville's base rates and base margin would continue to be established in general rate case filings. Nashville would continue to recover its gas costs under the existing PGA procedures and its GSR costs under the existing approved procedures. Nashville would also continue to adjust its rates as permitted by the WNA procedures.

> **General Description of Incentive Plan.** The Incentive Plan is comprised of two interrelated components--a Gas Procurement Incentive Mechanism and a Capacity Management Incentive Mechanism. The Gas Procurement Incentive Mechanism establishes a predefined benchmark index to which Nashville's city gate commodity cost of gas is compared, and also addresses the recovery of gas supply reservation fees, the treatment of offsystem sales and wholesale interstate sale for resale transactions, and the use of financial or private contracts in managing gas costs The Capacity Management Incentive Mechanism is designed to encourage Nashville to actively market offpeak unutilized transportation and storage capacity on pipelines in the secondary market.

General Description of the Gas Procurement Incentive Mechanism. The Gas Procurement Incentive Mechanism establishes a monthly benchmark dollar amount to which Nashville's actual city gate commodity gas costs are compared. If the total commodity gas purchase costs for a given month vary from the benchmark dollar amount by more than one percent (the monthly deadband), the variance or excess from the one percent deadband will be considered incentive gains or losses. These incentive gains or losses will be shared on a 50/50 basis between the company and its ratepayers subject to an overall annual cap of $1 6 million on gains or losses for Nashville under the plan The benchmark dollar amount is established by multiplying total actual purchase quantities each month by a monthly price index. The monthly price index is a composite price referencing monthly index prices published by *Inside FERC* weighted by location according to Nashville's firm capacity rights each month on upstream pipelines for gas supplies purchased by Nashville in the first-of-the-month market and transported under Nashville's firm transportation (FT) contracts, monthly index prices published by *Inside FERC* for spot supplies purchased in the first of the month market and delivered to the city gate using transportation arrangements other than Nashville's FT contracts, and the weighted average daily index prices published by *Gas Daily* for Nashville's daily spot purchases.

Reservation Fees. Nashville would continue to pass through reservation fees paid to gas suppliers on a dollar for dollar basis (with no profit or loss potential). With respect to new or replacement supply arrangements or price renegotiations under existing arrangements, Nashville would solicit bids or proposals for service and choose the best bid for the firm service Nashville requires consistent with its "best cost" gas procurement strategy. Nashville would continue to reserve the right to offer existing suppliers (who have performed well under expiring contracts) a right of first refusal to match the best bid

Offsystem Sales and Wholesale Sale for Resale Transactions. Any margin generated as the result of offsystem sales or wholesale sale for resale transactions using Nashville's firm transportation or storage capacity entitlements (the costs of which are recovered from Nashville's ratepayers) would be credited to gas costs and would be shared with ratepayers under the Gas Procurement Incentive Mechanism Margin would be defined as the difference between the sales proceeds and the total variable costs incurred by Nashville in connection with the transaction, including transportation and gas costs, taxes, fuel, or other costs. For purposes of gas costs, Nashville would impute such costs for its related supply purchases at the benchmark first-of-the-month or daily index, as appropriate, on the pipeline and in the zone in which the sale takes place. The difference between Nashville's actual costs and such index price is already taken into account under the plan. As to transportation costs, Nashville would impute such costs up to the transporting pipeline's maximum interruptible transportation (IT) rate. The difference between the maximum IT rate and Nashville's actual transportation commodity costs would be treated as capacity release margin under the Capacity Management Incentive Mechanism. After deducting the total transaction costs from the sales proceeds, any remaining margin would be credited to commodity gas costs and shared on a 50/50 basis with ratepayers.

Financial and Other Private Contracts. To the extent Nashville uses futures contracts, other financial derivative products, storage swap arrangements or other private contractual arrangements to hedge, manage or reduce gas costs, it would flow through any gains or losses through the commodity cost component of the Gas Procurement Incentive Mechanism.

Capacity Management Incentive Mechanism. The Capacity Management Incentive Mechanism is designed to provide Nashville an incentive to release unutilized offpeak firm transportation or storage capacity in the secondary interstate market and reduce Nashville's demand charges paid under those contracts to pipelines. The plan would flow back to Nashville's ratepayers 75% of the resulting cost savings and credit Nashville with 25% of the savings Transportation or storage margin embedded in offsystem sales or wholesale interstate sale for resale transactions (as described above) would also be subject to the same variable sharing formula. Like the other components of Nashville's incentive plan, the Capacity Management Incentive Mechanism would be subject to the $1 6 million overall annual cap on gains and losses for Nashville established for the plan.

New Pipeline Capacity Demand Costs and Gas Supply Reservation Fees. New pipeline capacity demand costs and/or gas supply reservation fees would be recovered through the PGA on a dollar for dollar basis (with no profit or loss potential) Nashville would solicit bids and will choose the bid which best matches Nashville's requirements. As new firm transportation capacity or supply services are added to Nashville's portfolio, Nashville would amend the monthly price index formula set forth in the Gas Procurement

Incentive Mechanism to take into account any new weighting of capacity entitlements within the supply zones.

Cap on Gain and Losses. Nashville would be limited to overall gains or losses totaling $1.6 million under the Incentive Plan in any plan year. Such gains or losses would 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.

Accounting Procedures. Each month during the term of plan, Nashville would compute any gains or losses under the Incentive Plan. If Nashville earns a gain, a separate non-interest bearing Incentive Plan Account (IPA) would be debited with such gain. If Nashville incurs a loss, that same IPA would be credited with such loss The offsetting entries to IPA gains or losses would be recorded to income or expense, as appropriate. At its option, however, Nashville may temporarily record any monthly gains in a non-regulatory deferred credit balance sheet account until results for the entire plan year are available. Each year, effective November 1, the rates for all customers, excluding interruptible transportation customers who receive no direct benefits from any gas cost reductions resulting from the plan, would be increased or decreased by a separate rate increment or decrement designed to amortize the collection or refund of the June 30 IPA balance over the succeeding twelve month period. The increment or decrement would be established by dividing the June 30 IPA balance by the appropriate volumetric billing determinants for the twelve months ended June 30. During the twelve month amortization period, the amount collected or refunded each month would be computed by multiplying the billed volumetric determinants for such month by the increment or decrement, as applicable. The product would be credited or debited to the IPA, as appropriate. The balance in the IPA would be tracked as a separate collection mechanism.

Reports. Nashville would file interim quarterly reports of the IPA account with the Commission not later than 60 days following the end of each fiscal quarter and would file an annual report of IPA activity not later than 60 days following the end of each plan year.

Proposed Effective Date. Nashville requests an effective date of July 1, 1996, with the first plan year continuing through June 30, 1997. The plan would rollover into a second year commencing July 1, 1997 and ending June 30, 1998 with the agreement of Nashville and the approval of the Commission Nashville would inform the Commission of its intention to roll over the plan for a second year no later than April 1, 1997.

In conjunction with the proposed Incentive Plan, Nashville also proposed to establish a five percent "reserve margin."

On April 30, 1996, the Commission gave notice that it had scheduled a hearing in this matter for May 9, 1996 at 9:00 a.m. in the Commission Hearing Room on the Ground Floor at 460 James Robertson Parkway, Nashville, Tennessee.

On May 2, 1996, the Consumer Advocate filed a Petition to Intervene, Suspend Tariff, and Continue. On April 30, 1996, United Cities Gas Company (United Cities) filed a Petition to Intervene. On May 7, 1996, Associated Valley Industries Group (AVI) filed a Petition to Intervene. On May 9, 1996, the Consumer Advocate filed a motion to withdraw

On May 9, 1996, the hearing was held as scheduled. At the start of the hearing, counsel for Nashville announced that as a result of discussions with representatives of the Consumer Advocate, the Company had agreed to make the following modifications to the Incentive Plan.

a. Interest will be computed on the average monthly balance of the Incentive Plan Account (IPA) at the same interest rate and in the same manner as used to compute interest on the "Refund Due Customers' Account" of the Company's Purchased Gas Adjustment (PGA).

b To the extent that Nashville renegotiates existing reservation fee supply contracts or executes new reservation fee supply contracts with commodity pricing provisions at a discount to the first-of-the-month price index, Nashville would modify the monthly commodity price index to reflect such discount

c. To the extent Nashville is able to release transportation or storage capacity, or generate transportation or storage margin associated with off-system or wholesale sales-for-resale, the associated cost savings shall be shared by Nashville and customers according to the following sharing formula.

Capacity Management Incentive cost savings as a percent of Nashville's annual transportation and storage demand costs.	Sharing percentages Nashville/Customers. (Percent)
Up to and including 1 percent	0/100
Greater than 1 percent but less than or equal to 2 percent	10/90
Greater than 2 percent but less than or equal to 3 percent	25/75
Greater than 3 percent	50/50

The sharing percentages shall be determined based on the actual demand costs incurred by Nashville (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 gains or losses resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA).

A copy of the tariff containing the modified Incentive Plan was received in evidence along with the prefiled direct and supplemental direct testimony of the Company. The Company's witnesses were made available for cross examination

At the conclusion of the hearing, Commissioner Hewlett made a motion to approve the proposed Incentive Plan as modified by the agreement between Nashville and the Consumer Advocate and to direct the Company and the Commission Staff to recommend a qualified independent consultant to review the progress of this mechanism and to annually report their findings to the Commission The motion was seconded by Commissioner Kyle and unanimously adopted.

IT IS THEREFORE ORDERED·

1. That Nashville Gas Company's Service Schedule No. 14, Performance Incentive Plan, as attached to this Order is approved effective July 1, 1996.

2. That the first plan year shall begin on July 1, 1996 and end on June 30, 1997. The Incentive plan will rollover into a second year commencing July 1, 1997 and ending June 30, 1998 upon the request of the Company and the approval of the Commission.

3. That Nashville Gas Company is relieved of any responsibility for prudence reviews during the initial term of the Incentive Plan and any extension thereof.

4. That the Company and the Commission Staff recommend a qualified independent consultant to review the progress of the approved Incentive Plan and to annually report their findings to the Commission.

5. That the five percent (5%) reserve margin proposed by Nashville as part of the Incentive Plan is approved.

6. That any party aggrieved with the Commission's decision in this matter may file a Petition for Reconsideration with the

Commission within the (10) days from and after the date of this order.

7. That any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Division, within sixty (60) days from and after the date of this order.

**

CHAIRMAN

COMMISSIONER

COMMISSIONER

ATTEST:

EXECUTIVE DIRECTOR

** Chairman Bissell voted in favor of this petition as reflected in the transcript in this docket.

SERVICE SCHEDULE NO. 14
Performance Incentive Plan

APPLICABILITY

The Performance Incentive Plan replaces the current reasonableness or prudence review of Nashville Gas Company's (Nashville) gas purchasing activities overseen by the Commission. The plan is designed to provide incentives to Nashville in a manner that will produce rewards for its customers and its shareholders and improvements in Nashville's gas procurement activities Each plan year will begin July 1. The annual provisions and filings herein would apply to this annual period

OVERVIEW OF STRUCTURE

Nashville's Performance Incentive Plan is comprised of two interrelated components

- Gas Procurement Incentive Mechanism
- Capacity Management Incentive Mechanism

The Gas Procurement Incentive Mechanism establishes a predefined benchmark index to which Nashville's commodity cost of gas is compared It also addresses the recovery of gas supply reservation fees, the treatment of off-system sales and wholesale interstate sale for resale transactions, and the use of financial or private contracts in managing gas costs The net incentive benefits 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 Nashville to actively market off-peak unutilized transportation and storage capacity on upstream pipelines in the secondary market. The net incentive benefits or costs will be shared between the Company's customers and the Company utilizing a graduated sharing formula, with sharing percentages for Nashville ranging between zero and fifty percent

The Company will have a cap on incentive gains and losses During the initial plan year, Nashville's overall gains or losses cannot exceed $1.6 million annually Also as a part of the Performance Incentive Plan, Nashville submitted a Three Year Supply Plan and will obtain additional firm gas supply related thereto Included in the Three Year Supply Plan is support for a capacity reserve margin

GAS PROCUREMENT INCENTIVE MECHANISM

The Gas Procurement Incentive Mechanism addresses the following areas

- Commodity Costs
- Gas Supply Reservation Fees

- Off-System Sales and Sale for Resale Transactions
- Use of Financial Instruments or Other Private Contracts

COMMODITY COSTS

Each month Nashville will compare its *total city gate commodity cost of gas*[1] to a benchmark dollar amount The benchmark gas cost will be computed by multiplying total actual purchase quantities for the month by a price index. The monthly price index is defined as

$$I = F_f(P_0K_0+P_1K_1+P_cK_c+\ldots P_{-}K_{-})+F_oO+F_dD; \text{ where}$$

$$F_f+F_o+F_d= 1, \text{ and}$$

I = the monthly city gate commodity gas cost index.

F_f = the fraction of gas supplies purchased in the first-of-the-month market which are transported to the city gate under Nashville's FT service agreements

P' = the *Inside FERC Gas Market Report* price index for the first-of-the-month edition for a geographic pricing region, where subscript 0 denotes Tennessee Gas Pipeline (~~TPG~~) Rate Zone 0; subscript 1 denotes TGP Rate Zone 1, subscript C denotes Columbia Gas Transmission (CGT), Louisiana, plus applicable transportation and fuel charges in CGT's FT tariff to Rayne, and

TGP

[1] Gas purchases under Nashville's existing supply contract on the Tetco system are excluded from the incentive mechanism Nashville will continue to recover 100 percent of these costs through its PGA with no profit or loss potential Extension or replacement of such contract shall be subject to the same competitive bidding procedures that will apply to other firm gas supply agreements In addition, Nashville's gas procurement incentive mechanism will measure storage gas supplies against the benchmark index during the months such quantities are purchased for injection. For purposes of comparing such gas purchase costs against the monthly city gate index price, Nashville will exclude any commodity costs incurred downstream of the city gate to storage so that Nashville's actual costs and the benchmark index are calculated on the same basis

subscript ∝ denotes new incremental firm services to which Nashville may subscribe in the future[2] The commodity index prices will be adjusted to include the appropriate pipeline maximum firm transportation (FT) commodity transportation charges and fuel retention to the city gate under Nashville's FT service agreements

K = the fraction (relative to total maximum daily contract entitlement) of Nashville's total firm transportation capacity under contract in a geographic pricing region, where the subscripts are as above[3]

F_o = the fraction of gas supplies purchased in the first-of-the-month spot market which are delivered to Nashville's system using transportation arrangements other than Nashville's FT contracts

O = the weighted average of *Inside FERC Gas Market Report* first-of-the-month price indices, plus applicable maximum IT rates and fuel retention, from the source of the gas to the city gate, where the weights are computed based on actual purchases of gas supplies purchased by Nashville and delivered to Nashville's system using transportation arrangements other than Nashville's FT contracts

F_d = the fraction of gas supplies purchased in the daily spot market

D = the weighted average of daily average index commodity prices taken from *Gas Daily* for the appropriate geographic pricing regions, where the weights are computed based on actual purchases made during the month The

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2 To the extent that Nashville renegotiates existing reservation fee supply contracts or executes new reservation fee supply contracts with commodity pricing provisions at a discount to the first-of-the-month price index, Nashville would modify the monthly commodity price index to reflect such discount

3 Because the aggregate maximum daily contract quantities in Nashville's FT contract portfolio vary by month over the course of the year, the weights would be recalculated each month to reflect actual contract demand quantities for such month The contract weights, and potentially the price indices used, would also vary as Nashville renegotiates existing or adds new FT contracts As new contracts are negotiated, Nashville would modify the index to reflect actual contract demand quantities and the commodity price indices appropriate for the supply regions reached by such FT agreements

commodity index prices will be adjusted to include the appropriate maximum transportation commodity charges and fuel retention to the city gate

If the actual total commodity gas purchase cost in a month is within one percent of the benchmark dollar amount, then there will be no incentive gains or losses If the actual total commodity gas purchase cost varies from the benchmark dollar allowance by more than one percent, then the variance in excess of the one percent threshold shall be deemed incentive gains or losses under the plan. Such gains or losses will be shared 50/50 between the Company and the ratepayers.

Gas Supply Reservation Fees
Nashville will continue to recover 100% of gas supply reservation fee costs through its PGA with no profit or loss potential For new contracts and/or contracts subject to renegotiation during the Plan year, Nashville will solicit bids for gas supply contracts containing a reservation fee

Off-System Sales And Sale For Resale Transactions
Margin on off-system sales and wholesale sale-for-resale transactions using Nashville's firm transportation and capacity entitlements (the costs of which are recovered from Nashville's ratepayers) shall be credited to the commodity gas cost component of the Gas Procurement Incentive Mechanism and will be shared with ratepayers Margin on such sales will be defined as the difference between the sales proceeds and the total variable costs incurred by Nashville in connection with the transaction, including transportation and gas costs, taxes, fuel, or other costs For purposes of gas costs, Nashville will impute such costs for its related supply purchases at the benchmark first-of-the-month or daily index, as appropriate, on the pipeline and in the zone in which the sale takes place The difference between Nashville's actual costs and such index price is taken into account elsewhere under the plan As to transportation costs, Nashville will impute such costs up to the transporting pipeline's maximum interruptible transportation (IT) rate The difference between the maximum IT rate and Nashville's actual transportation commodity costs will be treated as capacity release margin under the Capacity Management Incentive Mechanism After deducting the total transaction costs from the sales proceeds, any remaining margin will be credited to commodity gas costs and shared on a 50/50 basis with ratepayers

Use Of Financial Instruments Or Other Private Contracts
To the extent Nashville uses futures contracts, financial derivative products, storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs, it will flow through gains or losses through the commodity cost component of the Gas Procurement Incentive Mechanism

CAPACITY MANAGEMENT INCENTIVE MECHANISM
To the extent Nashville is able to release transportation or storage capacity, or generate transportation or storage margin associated with off-system or wholesale sales-for-

resale, the associated cost savings shall be shared by Nashville and customers according to the following sharing formula

Capacity Management Incentive cost savings as a percent of Nashville's annual transportation and storage demand costs.	Sharing percentages Nashville/Customers (Percent)
Less than or equal to 1 percent	0/100
Greater than 1 percent but less than or equal to 2 percent	10/90
Greater than 2 percent but less than or equal to 3 percent	25/75
Greater than 3 percent	50/50

The sharing percentages shall be determined based on the actual demand costs incurred by Nashville (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 gains or losses resulting from adjustments to the sharing percentages caused by refunds or surcharges shall be recorded in the current Incentive Plan Account (IPA)

DETERMINATION OF SHARED SAVINGS

The calculations and recording of incentive gains or losses under the various elements of the Gas Procurement Incentive Mechanism and the Capacity Management Incentive Mechanism shall be performed in accordance with the benchmark formulas approved by the Commission in Docket No 96-00805 Nashville will compute the gain or loss using the approved formulas monthly

During a plan year, Nashville will be limited to overall gains or losses totaling $1 6 million Such gains or losses 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 month during the term of plan, Nashville will compute any gains or losses under the plan If Nashville earns a gain, a separate Incentive Plan Account (IPA) will be debited with such gain If Nashville incurs a loss, that same IPA will be credited with such loss. Interest shall be computed on balances in the IPA using the same interest rate and methods as used in Nashville's Actual Cost Adjustment (ACA) account The offsetting entries to IPA gains or losses will be recorded to income or expense, as appropriate At its option, however, Nashville may temporarily record any monthly gains in a non-regulatory deferred credit balance sheet account until results for the entire plan year are available

Each year, effective November 1, the rates for all customers, excluding interruptible transportation customers who receive no direct benefit from any gas cost reductions resulting from the plan, will be increased or decreased by a separate rate increment or decrement designed to amortize the collection or refund of the June 30 IPA balance over the succeeding twelve month period The increment or decrement will be established by dividing the June 30 IPA balance by the appropriate volumetric billing determinants for the twelve months ended June 30 During the twelve month amortization period, the amount collected or refunded each month will be computed by multiplying the billed volumetric determinants for such month by the 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.

FILING WITH THE COMMISSION

The Company will file calculations of shared savings and shared costs quarterly with the Commission not later than 60 days after the end of each interim fiscal quarter and will file an annual report not later than 60 days following the end of each plan year

PERIODIC REVIEW

Because of the experimental nature of the Performance Incentive Plan, it is anticipated that the indices utilized, and the composition of the utility's purchased gas portfolio may change. The Company shall, within 30 days of identifying a change to a significant component of the mechanism, provide notice of such change to the Commission Staff.

EXHIBIT B

TO

NASHVILLE GAS COMPANY'S RESPONSE TO THE ENERGY AND WATER DIVISION'S INCENTIVE PLAN ACCOUNT AUDIT REPORT

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

March 11, 1999

IN RE:	)	
	)	
APPLICATION OF NASHVILLE GAS COMPANY,	)	
A DIVISION OF PIEDMONT NATURAL GAS	)	**DOCKET NO. 96-00805**
COMPANY, TO ESTABLISH A PERFORMANCE	)	
INCENTIVE PLAN	)	

ORDER APPROVING PERFORMANCE INCENTIVE PLAN

On August 18, 1998, this matter came before the Tennessee Regulatory Authority (hereafter the "Authority" or "TRA") for consideration of the Application of Nashville Gas Company (hereafter "Nashville" or "Company"), a division of Piedmont Natural Gas Company, to extend its previously-approved Performance Incentive Plan (hereafter the "Incentive Plan") on a permanent basis or until further order of the Authority. The Company also proposed to revise the Incentive Plan to clarify and/or simplify certain language in a manner that does not change any of its substantive or material provisions. In addition, the Company proposed to eliminate the requirement for an independent annual review.

I. BACKGROUND

On May 31, 1996, the Tennessee Public Service Commission (hereafter the "TPSC"), the predecessor to the Authority, issued an order approving the Incentive Plan for an experimental two-year period, beginning July 1, 1996. The Incentive Plan replaces the reasonableness or prudence review of Nashville's gas purchasing activities overseen by the Authority and is designed to produce rewards for Nashville's customers and its shareholders and to produce improvements in Nashville's gas procurement activities. The Incentive Plan approved by the TPSC was the result of an agreement between Nashville and the Consumer Advocate Division of the Office of the Tennessee Attorney General (hereafter "Consumer Advocate") and was not opposed by any party. The TPSC's order approving the Incentive Plan required Nashville and the TPSC's Staff to recommend a qualified independent consultant to review the progress of the Incentive Plan and to annually report the independent consultant's findings to the TPSC. The order also required Nashville to inform the TPSC by April 1, 1997, if it wished to continue the Incentive Plan for a second year.

On November 27, 1996, Nashville and the Authority's Staff submitted for the Authority's approval a contract for Andersen Consulting to perform annual reviews regarding the progress of the Incentive Plan. By Order dated January 2, 1997, the Authority determined that it was appropriate to accept the recommendation of the Company and the TRA's Staff that Andersen Consulting be employed as the independent consultant. The Authority approved the Andersen Consulting contract dated November 21, 1996.

By letter dated March 31, 1997, Nashville informed the Authority that it proposed to continue the plan for a second year, without modification. By letter dated April 7, 1997, Associated Valley Industries notified the Authority that it did not object to the Company's request No party filed an objection to the Company's request. In accordance with its contract, Andersen Consulting filed its First Year Review of Performance Incentive Plan dated May 1, 1997, (hereafter the "First Report") and recommended that the Incentive Plan be continued for another year without modification. By Order dated June 30, 1997, the Authority authorized Nashville to continue the Incentive Plan for a second year, commencing July 1, 1997.

Andersen Consulting completed its Second Year Review of Performance Incentive Plan (hereafter the "Second Report") on March 23, 1998. By its Application dated March 31, 1998, Nashville requested that the Authority approve the Incentive Plan on a permanent basis, relying in large part upon the recommendations made by Andersen Consulting in its Second Report.

In the Second Report, Andersen Consulting found that:

> I. Based upon a review of Nashville's workpapers that were available following the publication of the First Report, the Incentive Plan's performance during the period July 1, 1996, through June 30, 1997, the first year of the Incentive Plan, was as follows:
>
> 1. Net savings totaled $1,379,000, the amount available to be split between the ratepayers and Nashville, subject to the 1% deadband.
> 2. Ratepayers "earned" $925,000 in savings during the first full year of the plan or about 67% of the amount available from the sharing mechanism and the amount within the 1% deadband.
> 3. Nashville "earned" $455,000 during the first full year of the plan or about 33% of the amount available from the sharing mechanism and the amount within the 1% deadband.
> 4. Nashville's share of gains/losses for the first full year of the plan was approximately 1/3 of the $1.6 million gains/losses cap.
>
> II. Based upon a review of Nashville's workpapers, the Incentive Plan's performance during the period July 1, 1997, through December 31, 1997, a period of six months into the second year of the Incentive Plan, was as follows:
>
> 1. Net savings for the first six months of the second year of the Incentive Plan totaled $769,000, the amount available

to be split between the ratepayers and Nashville, subject to the 1% deadband.

2. Ratepayers "earned" $598,000 in savings during the first six months of the second year of the Incentive Plan or about 78% of the amount available from the sharing mechanism and the amount within the 1% deadband.

3. Nashville "earned" $171,000 during the first six months of the second year of the Incentive Plan or about 22% of the amount available from the sharing mechanism and the amount within the 1% deadband.

4. Nashville's share of gains/losses for the first six months of the second year of the Incentive Plan was less than 11% of the $1.6 million gains/losses cap.

5. Nashville's net gains during the first six months of the second year of the Incentive Plan was largely attributable to the Incentive Plan's Gas Procurement Mechanism, a reversal from the first year of the Incentive Plan.

After summarizing the activity in the Gas Procurement Incentive Mechanism and Capacity Management Incentive Mechanism for the period July 1, 1997, through December 31, 1997, as well as evaluating Nashville's organizational policies and practices, Andersen Consulting made the following recommendations in the Second Report:[1]

1. Implement a permanent performance based ratemaking mechanism, based upon the merits of the Incentive Plan.[2]

2. Rollover the permanent plan automatically each year, unless Nashville gives advance notice of its need to either withdraw or change the Incentive Plan, or the Authority elects to modify, amend, or terminate the Incentive Plan.

[1] The Second Report also pointed out that "[t]he existence or absence of an incentive plan similar to [Nashville] is not, in itself, a confirmation or an indictment of [Nashville's] plan Instead the case studies demonstrated the various plans used by other utilities operating in other jurisdictions and that [Nashville's] performance incentive plan was generally consistent with those industry practices " Second Year Review, dated March 23, 1998, at page 15

[2] This recommendation was based, in part, upon the judgment of Andersen Consulting that the objectives of the two year period of the Incentive Plan were satisfied and the Incentive Plan resulted in benefits to both the ratepayers and Nashville Id at page 16

3. Retain the employee incentive compensation plan that links reward with performance to ensure alignment of behavior and risk-taking with results.

4. Retain the primary features of the Incentive Plan, without modifications. A summary of those features include:

   A. Gas Procurement Mechanism:[3] 50/50 sharing arrangement, with a performance indicator of 99% of Index for Gains, and 101% of Index for Penalties.

   B. Capacity Management Mechanism:[4] Sliding scale from 100/0 to 50/50 as the sharing arrangement,[5] using the demand costs for transportation and storage capacity as the performance indicator.

5. Retain, without modifications, the "monthly price index" composite formula, as defined in the Appendix to the Second Report, that serves to compare Nashville's total city gate commodity cost of gas to a benchmark amount.

6. Having concluded the experimental period, remove the need for the permanent plan to be independently reviewed by a consultant, consistent with the Incentive Plan's objective of streamlining regulation and lowering regulatory costs.

At a regularly scheduled Authority Conference held on April 21, 1998, the Directors unanimously appointed the General Counsel or his designee to act as Hearing Officer to hear certain preliminary matters and to set a procedural schedule. A Pre-Hearing Conference was publicly noticed on June 4, 1998, and held on June 15, 1998, at 10:00 a.m. before Authority counsel, Dennis McNamee. Prior to the Pre-Hearing Conference, no party sought intervention in

[3] The Gas Procurement Mechanism includes the primary elements of commodity costs, gas supply reservation fees, off-system sales and sale for resale transactions, use of financial instruments, both public and private contracts, hedges and swaps

[4] The Capacity Management Mechanism includes the primary elements of release of transportation capacity, release of storage capacity, transportation of storage margin associated with off-system or wholesale sales-for-resale.

[5] As outlined in the Second Report, Nashville's share of the associated cost savings is calculated based on the actual capacity demand charges incurred by Nashville Thus, the lower the demand charges and the greater the savings, the higher Nashville's sharing percentage Id

this proceeding. No interested parties, other than Nashville, appeared at the Pre-Hearing Conference. On June 15, 1998, the Hearing Officer filed his Report and Recommendation.

At a regularly scheduled Authority Conference held on June 30, 1998, the Directors considered the Hearing Officer's Report and Recommendation which recommended that the Application of Nashville Gas be brought before the Directors for consideration without a hearing since no parties had intervened nor had any objections to the Application been filed with the Authority. After reviewing the Report and Recommendation, and other relevant portions of the record, the Directors unanimously approved and adopted the Report and Recommendation of the Hearing Officer. This matter was scheduled for the Directors' consideration in July and, since the experimental period of the Incentive Plan expired on June 30, 1998, the Directors unanimously voted to allow the Company to continue operating under the incentive plan as it existed on June 30, 1998, until such time as the Authority further deliberated upon the matter and rendered a final decision on Nashville's Application.

On July 17, 1998, the Authority issued two Requests for Clarification to Nashville, the first of which outlined three (3) issues affecting Nashville's proposed Tariff Service Schedule No. 14. The Company responded to this first request by submitting, on July 23, 1998, a revised proposed tariff which incorporated the following new language:

1. Applicability Section: The Plan will continue until the Plan is either (a) terminated at the end of a plan year by not less than 90 days notice by Nashville to the Authority or (b) the Plan is modified, amended or terminated by the Authority.

2. Filing with the Authority Section: Unless the Authority provides written notification to the Company within 180 days of such reports, the Incentive Plan Account shall be deemed in compliance with the provisions of this Service Schedule.

3. Periodic Index Revisions Section: Unless the Authority provides written justification to the Company within 30 days of such notice, the price indices shall be deemed approved as proposed by the Company.

The second clarification request inquired as to the status of the Company's "feedback and reward system." The Company responded to this request by letter dated July 23, 1998, which further detailed Nashville's "feedback and reward system." Company representative, Bill R. Morris, executed an affidavit on July 31, 1998, attesting to his responses to each of these clarification requests. This affidavit, together with the clarification requests and responses thereto, was officially filed with the Authority and are part of the record considered in this matter.

This matter came before the Authority again at the regularly scheduled Authority Conference held on August 18, 1998. Having considered the First Report,[6] the Second Report,[7] the verified responses of Nashville to the Requests for Clarification, and other relevant portions of the record, the Authority unanimously approved Nashville's Application to extend its Incentive Plan, and directed Nashville to file a revision to its Service Schedule No. 14 Tariff, stating the following:

1. Nashville will continue to have in place the Gas Supply Incentive Compensation Program, as detailed to the Authority in its letter dated July 23, 1998, and,

2. Nashville will submit to the Authority, in writing, any proposed changes to the Gas Supply Incentive Compensation Program and, if the Authority elects to take no action concerning such proposed changes

[6] On July 31, 1998, Frank H Creamer executed as affidavit, which is a part of the evidentiary record in this matter, stating that to the best of his knowledge his analysis, conclusions, and recommendations in his first and second year reports are true and accurate to the best of his knowledge and belief

[7] Id

> prior to the end of sixty (60) days after the same shall have been filed with the Authority, then such proposed changes shall become effective.

The Authority unanimously agreed to allow the Incentive Plan, as revised, to be automatically renewed on July 1st of each year, beginning July 1, 1998, unless and until the Incentive Plan is either (a) terminated at the end of a plan year by not less than ninety (90) days notice by Nashville to the Authority or (b) the Incentive Plan is modified, amended or terminated by the Authority.

The Authority also found it appropriate to eliminate the requirement for an independent review of the Incentive Plan. Based upon the independent consultant's analysis, the benefits of the Incentive Plan have now been demonstrated. Furthermore, Nashville will continue to submit quarterly and annual reports of the operations of the Incentive Plan and, if such reports or any other information should raise questions about the continued operations of the Incentive Plan, the Authority may take such action as it deems appropriate.

It is the opinion of the Directors of the Authority that incentive plans such as that proposed by Nashville can satisfy the public interest by providing net benefits to both ratepayers and the Company.[8] Such net benefits can be realized when an incentive plan is carefully evaluated and properly administered, consistent with state law. In Nashville's case, the Authority concludes that the Incentive Plan satisfies the public interest. The Authority further concludes that it is consistent with the goal of keeping expenses at a minimum to establish a Gas Supply Incentive Compensation Program to recognize selected Gas Supply non-executive employees

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[8] In formulating its decision in this matter, the Authority is mindful of the dicta offered by the Court of Appeals in its March 5, 1997, decision in Tennessee Consumer Advocate v Tennessee Regulatory Authority, 1997 WL 92079, *4 (Tenn Ct App.), wherein the Court noted "Of particular interest and concern are the propriety of . 'rewarding' [a] utility for keeping its expenses at the minimum, and of utilizing the services of an expert employed by the utility "

who are directly involved in managing such expenses. The public interest is served by performance measures for the Incentive Plan being established on an annual basis and by employees receiving incentive compensation as recognition for their contribution to the ratepayers and Nashville's shareholders through lower gas costs and gains related thereto.

IT IS THEREFORE ORDERED THAT:

1. Consideration of Nashville Gas Company's application for the extension of the Incentive Plan on a permanent basis does not require a hearing because no parties have intervened and no objections to Nashville's Application have been filed with the Authority;

2. Nashville Gas Company is authorized to continue to operate under the Incentive Plan, as modified herein, in such a manner that the Incentive Plan will automatically rollover for an additional plan year on each July 1st, beginning July 1, 1998, and will continue until the Incentive Plan is either (a) terminated at the end of a Plan Year by not less than 90 days notice by Nashville to the Authority or (b) the Incentive Plan is modified, amended or terminated by the Authority;

3 The requirement for an independent review of the Incentive Plan is eliminated;

4. The Company shall amend Service Schedule No. 14 of its Tariff by inserting a section entitled "Gas Supply Incentive Compensation Program" which provides that while the plan is in effect the Company will continue to have in place its "Gas Supply Incentive Compensation Program" as detailed in the Company's July 23, 1998, response to the Authority's second clarification request of July 17, 1998. This section of the tariff shall further provide that

the Company is required to notify the Authority in writing of any changes to the Gas Supply Incentive Compensation Program and, unless the Company is otherwise notified by the Authority within sixty (60) days, said changes will become effective.

5. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from the date of this Order; and

6. Any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

Melvin J. Malone, Chairman

H. Lynn Greer, Jr., Director

Sara Kyle, Director

ATTEST:

K David Waddell, Executive Secretary

EXHIBIT C

TO

DIRECT TESTIMONY OF REBECCA M. BUCHANAN ON BEHALF OF ATMOS ENERGY CORPORATION

INTERRUPTIBLE MARGIN CREDIT RIDER

APPLICABILITY

This Rider shall apply to and become part of each of Chattanooga Gas Company's (Company's) Rate Schedules under which gas is sold on a firm basis (hereinafter referred to as "Firm Schedule").

INTENT AND APPLICATION

This Interruptible Margin Credit Rider is intended to authorize the Company to recover ninety percent (90%) of the gross profit margin losses that result from rates negotiated under the provisions of Special Service Rate Schedule SS-1 or from Customers who switch to alternate fuels where the Company is unable to meet alternate fuel competition.

This Interruptible Margin Credit Rider is also intended to authorize the Company to recover not more than fifty percent (50%) of the gross profit margin that results from transactions with non-jurisdictional Customers that rely on the Company's gas supply assets (all such transactions including off-system sales) should such transactions be made by the Company. The Company shall also recover through this Rider other costs authorized by the Authority. C

DETERMINATION OF GROSS PROFIT MARGIN LOSSES

The gross profit margin loss shall be calculated as ninety percent (90%) of the difference between the Test-Year Targeted Rate Margin as determined in the Company's most recent rate case order of the Authority and the Actual Negotiated Rate Margin.

Any amount of gross profit margin losses shall be recovered from the firm commodity component of gas costs as determined under the presently effective Purchased Gas Adjustment Provision.

FILING WITH THE AUTHORITY

Annually the Company shall file a report of the negotiated rate gross profit margin loss and the gross profit margin from transactions with non-jurisdictional Customers for the accounting/recovery period which shall correspond with the Company's Fiscal Year, or if the Company has an asset management agreement, the accounting/recovery period may be modified to coincide with the contract year of the agreement or, for just cause, with another appropriate accounting/recovery period.

The Company shall charge all authorized negotiated rate gross profit margin losses to the "Deferred Gas Cost" account in accordance with Section III.C. of the Authority's PGA Docket No. G86-1 and shall file the supplemental sheets required by this Rule showing the calculation of the margin losses unless modified and approved by the Authority upon showing good cause.

EXHIBIT
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EXHIBIT D

TO

DIRECT TESTIMONY OF REBECCA M. BUCHANAN ON BEHALF OF ATMOS ENERGY CORPORATION

11-00034

ATMOS energy

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August 9, 2011

Ms. Pat Murphy, Deputy Chief
Utilities Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

20110112

Dear Ms. Murphy,

Pursuant to our discussions, I enclose an original and four (4) copies of the 3rd Revised Sheet No. 45.1 of Atmos Energy Corporation's tariff. Although Atmos Energy continues to believe that its current PBR tariff rider covers all revenue from asset management whether by up-front fees from asset managers or otherwise, this revision adds requested clarifying language to remove any doubt. If you have any questions, please do not hesitate to contact me.

Very truly yours,

Pat Childers

Patricia J. Childers
VP- Rates & Regulatory Affairs

Enclosures

Atmos Energy Corporation
810 Crescent Centre Drive, Suite 600, Franklin, TN 37067-6226
P 615-771-8300 F 615-771-8301 atmosenergy.com

EXHIBIT
D

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. N
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