BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY	**)**	
CORPORATION FOR APPROVAL OF	**)**	
ADJUSTMENT OF ITS RATES AND	**)**	
REVISED TARIFF	**)**	**DOCKET NO.**

PRE-FILED TESTIMONY OF EARNEST B. NAPIER, P.E.
ON BEHALF OF ATMOS ENERGY CORPORATION

I. INTRODUCTION OF WITNESS

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

A. My name is Earnest B. Napier. I am Vice President Technical Services of the KY/Mid-States Division of Atmos Energy Corporation ("Atmos Energy" or "Company"). My business address is 810 Crescent Centre Drive, Suite 600, Franklin, TN 37067-6226.

II. SUMMARY OF TESTIMONY

Q. PLEASE SUMMARIZE THE TESTIMONY YOU INTEND TO GIVE IN THIS MATTER.

A. I will describe Atmos Energy's budgeting process for capital expenses ("Capex"). My testimony will describe how the Company decides upon and prioritizes its capital expenditures.

Specifically, I will discuss the Company's capital expenditures relating to Tennessee for the historic period and as well as the forecast for the attrition period. I will also describe certain planned capital expenditures related to Atmos Energy's bare steel pipe replacement program and pipeline safety.

III. WITNESS QUALIFICATIONS

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I received a Bachelor of Science degree in Civil Engineering from The University of Tennessee in 1982. I am a Registered Professional Engineer in the states of Tennessee, Missouri, and Kansas. I have been employed in the utility industry since 1977, predominantly in the natural gas distribution field. I have been employed by Atmos Energy Corporation for almost thirty (30) years.

During my time at Atmos Energy, I have held several different positions. I began as a Project Engineer and have held the following positions: Manager-Engineering Design, Division Vice President–Engineering, and Manager–Engineering Services. I was named Vice President Technical Services for the KY/Mid-States Division in July of 2007.

Q. WHAT ARE YOUR RESPONSIBILITIES AS THE VICE PRESIDENT OF TECHNICAL SERVICES?

A. I have overall responsibility for decision-making related to technical operations. This includes engineering and system design, safety, compliance, procurement, environmental, measurement, communications, technological infrastructure, and

storage operations. I also sponsor Atmos Energy's Compliance Committee and am a member of the Atmos Utility Operations Council, which sets the Company's standard practices and procedures for construction, maintenance, and service. In addition, I am responsible for developing the Division's (including Tennessee's) annual capital budget, and for monitoring capital budgetary compliance. In this regard, it is my role to ensure that the Company's investment in new plant and equipment in Tennessee is targeted towards meeting the important goals of public safety, system reliability, and efficiency.

IV. CAPITAL BUDGETING PROCESS

Q. WHAT ARE THE OBJECTIVES OF THE COMPANY'S CAPITAL BUDGETING PROCESS?

A. The objectives are to:

(1) Formalize the process of identifying construction needs and prioritizing capital expenditures;

(2) Assess the economic feasibility of individual construction projects;

(3) Determine overall capital requirements for the planning periods;

(4) Reassess long term system maintenance requirements annually; and

(5) Review past construction projects and work practices, and apply procedural improvements as appropriate.

Q. PLEASE DESCRIBE THE PLANNING AND BUDGET PROCESS FOR THE COMPANY'S CAPITAL CONSTRUCTION PROGRAM.

A. The Company plans its capital expenditures over five fiscal years, with a focused emphasis on the first year of that five-year period. We normally begin this process during our third fiscal quarter (April-May) of each year, some 4 to 5 months prior to the beginning of the next fiscal year. The process is initiated within the Division by a request from my office for a "bottom-up" submission of projects from our operations supervisors and operations managers in Tennessee. All proposed projects, vehicles, and equipment must be identified at a high level by need and cost, and all budgets are prepared based upon meeting the five objectives described above. The proposed projects, vehicles, and equipment are reviewed by the KY/Mid-States Division's regional vice presidents of operations for collaborative agreements between the regional vice presidents, operations managers, and myself.

After review, additional information is requested for projects that are determined to be the most eligible for funding, and more detailed documentation is requested from the operations and technical services managers on those particular projects. Typically the process is largely complete by late June when projects are entered into the Atmos Energy capital budget system (PlanIt), although finalization of capital expenditures is not completed until late July. During this time, the agreed-to projects have been further substantiated to ensure they meet the appropriate financial criteria and the stated objectives.

The final proposed budget must be reviewed by the Division's senior management, including the Division President. Additional reviews are performed by corporate executive operations management and their staff. High level reviews

of the division budgets are also performed by the Company's senior executives who are presiding members of the Company's Management Committee. The Capex budget for Tennessee is not officially approved until it, as part of the Company's total Capex budget, is presented to the Company's Board of Directors in September of each year. Upon this approval, all approved projects are transferred into the Atmos Energy capital tracking system (POWERPLANT) and are ready for appropriation.

Q. HOW DOES ATMOS ENERGY PRIORITIZE ITS CAPITAL EXPENDITURES?

A. Our priorities for capital expenditure, listed in order of importance, are:

1. Public Safety;
2. System Capacity and Reliability;
3. Customer Growth;
4. Facilities Maintenance;
5. Public Works; and
6. Support of Long Term Technological Programs.

Q. WHAT FINANCIAL CRITERIA ARE THE MOST SIGNIFICANT IN APPROVING A PROJECT DURING THE CAPITAL BUDGETING PROCESS?

A. We begin work with an overall capital spending goal, which we try to work within, although variations are permitted if justified. We also use key investment criteria to evaluate projects. Any expenditure above targeted levels must be justified. Individual projects, and our construction program as a whole, are

assessed on safety, the basis of their return on investment, return on equity, cost of capital, cash flow, new business forecasts, and various capital overheads such as labor, benefits, and inflation.

Q. MUST ALL PROJECTS MEET THE SAME FINANCIAL CRITERIA?

A. No. We separate projects into growth and non-growth capital expenditures. Growth projects are revenue-producing investments for which we can identify a stream of revenues, cash flow, return, payback and other standard investment criteria. Non-growth capital expenditures involve system integrity, equipment, structures, pipeline integrity, system maintenance and reliability projects which are evaluated on a cost/benefit basis. We endeavor to keep our annual non-growth capital expenditures below the level of depreciation. Since these expenditures do not have an associated stream of revenues, our goal is to fund these expenditures through internal financial cash flow. Obviously, there are certain non-growth expenditures that do not impact public safety that can be scheduled into our five-year investment program to ensure that we properly maintain our system while still operating within overall cash flow constraints. Expenditures that impact public safety always have had and will continue to have the highest priority. We take our obligation to build and operate a safe and reliable gas system very seriously. Finally, there are also a number of projects we must fund which we have little control over as to timing, such as public works projects and highway relocations.

Q. HOW CAN THE COMPANY JUSTIFY ADDITIONAL EXPENDITURES BEYOND ITS REGULAR CAPITAL BUDGET PROJECTIONS?

A. The KY/Mid-States Division may secure additional funding through Atmos Energy if we can demonstrate that we have potential investments that compare more favorably to competing expenditures in other Atmos Energy business units and are, therefore, more worthy of immediate funding from a purely financial standpoint. However, unbudgeted expenditures that impact public safety, system capacity, or reliability, along with compliance projects, always have the highest priority, and are considered mandatory capital projects. Unbudgeted expenditures greater than twenty-five thousand dollars must be reviewed by the Division's senior management, including the Division President. If applicable, high-level reviews of unbudgeted expenditures also are performed by the Company's senior executives, who are presiding members of the Company's Management Committee.

V. CONTROL & MONITORING OF CAPITAL EXPENDITURES

Q. WHAT ARE THE GOALS OF THE COMPANY'S PROCESS OF CONTROLLING AND MONITORING CAPITAL EXPENDITURE VARIANCES?

A. Variances from budgeted amounts are inherent in the process of making capital expenditures. Our variance monitoring process exists to institute financial quality control by formalizing the analysis of variances by responsibility center in a process that identifies year-to-date spending variances by project. These reports are received and reviewed every month at the business unit level and on a quarterly basis at the corporate level. The goal is to keep all levels of

management informed of spending by category or project relative to budgeted levels and to ensure that corrective action is initiated on a timely basis. This supports decision-making related to the cost and appropriate management of current and future capital projects.

Q. PLEASE DESCRIBE THE COMPANY'S PROCESS FOR CONTROLLING AND MONITORING CAPITAL EXPENDITURE VARIANCES.

A. The Company's capital budgeting system maintains projects in two broad categories – Blanket Functionals and Specific Projects. The Blanket Functionals include total capital authorizations of a similar type such as new services, leak repair, short main replacements, small integrity/reliability projects, etc. Specific projects are uniquely identified, such as a specific highway relocation project, replacement of work equipment, or some larger significant integrity/reliability project.

Once a project has been entered in the capital budget system an appropriation request, Purpose and Necessity (P&N), may be submitted for authorization. Projects are then monitored to ensure they stay within budgeted levels. If during the course of a project, field management identifies that the costs of the project will exceed approved amounts, a request for supplemental funding may be submitted. All expenditures above authorized appropriation, and all expenditures for unbudgeted projects or variances on budgeted and approved projects, must be approved at the appropriate levels within the Company.

Each month, various project variance reports are published. Each manager is responsible for a budget center and held accountable for managing the overall approved capital budget.

Q. DISCUSS CAPITAL SPENDING DURING THE HISTORIC PERIOD.

A. During the historic period, April 1, 2011 through March 31, 2012, the Company's actual capital expenditures in Tennessee were $16.5 million, resulting in a variance of 12% or $2.3 million under the historic period budget. This variance was the result of timing issues related to aid in construction for growth projects and public improvement spending occurring outside of the months it was budgeted.

VI. ATTRITION PERIOD CAPITAL BUDGET

Q. WHAT IS THE ATTRITION PERIOD USED IN THIS RATE APPLICATION?

A. The attrition period is December 1, 2012 through November 30, 2013. This represents ten months of Tennessee's fiscal year 2013 and two months of Tennessee's fiscal year 2014.

Q. WHAT IS TENNESSEE'S ATTRITION PERIOD CAPITAL BUDGET?

A. Tennessee's attrition period capital budget is $29.4 million. Tennessee's capital budget is comprised of three components: (1) the capital spending for Tennessee for the forecasted period; (2) the amount allocated to Tennessee resulting from capital spending by the KY/Mid-States Division's general office; and (3) the amount allocated to Tennessee resulting from capital spending by the Company's

Shared Services (SSU) during the forecasted attrition period. The budgeting process for SSU Capex is described in the direct testimony of Company witness Mr. Waller, and the amounts projected to be closed to plant and comprising additions to SSU rate base are sponsored by Company witness Mr. Petersen. The methodology for allocating SSU and the Division general office rate base amounts to Tennessee is described in the testimony of Company witness Mr. Schneider.

Q. HOW WAS TENNESSEE'S CAPITAL BUDGET FOR THE ATTRITION PERIOD DEVELOPED?

A. We relied upon the FY2012 capital budget as a baseline for projecting FY2013 through FY2014 capital expenditures for purposes of the attrition period in this rate application.

Q. DISCUSS THE SIGNIFICANT DIFFERENCE BETWEEN THE HISTORIC PERIOD CAPITAL BUDGET AND THE ATTRITION PERIOD CAPITAL BUDGET.

A The difference is caused by two safety related projects. Combined, these two items account for $14.7 million of the attrition period capital budget. These two projects are described in greater detail later in this testimony.

Q. WHAT IS TENNESSEE'S FY 2012 DIRECT CAPITAL BUDGET?

A. The original approved FY2012 direct capital budget for Tennessee was $16.3 million.

Q. WHAT IS TENNESSEE'S FY2013 DIRECT CAPITAL BUDGET AS PROJECTED IN THIS CASE?

A. Tennessee's FY2013 direct capital budget is projected at $30.4 million.

Q. HOW DID YOU ADJUST TENNESSEE'S FY2012 CAPITAL BUDGET IN ORDER TO PREPARE THE FY2013 CAPITAL BUDGET?

A. The projected cost of budgeted projects planned for FY2012, before the application of overheads, was used as a baseline. Five percent was added to FY2012 capital budget to develop the FY2013 capital budget. Additional known capital projects were also included in the FY2013 projected capital budget.

Q. HOW WAS THE DIVISION'S GENERAL OFFICE CAPITAL BUDGET DEVELOPED?

A. The capital budget for the KY/Mid-States Division general office was developed in conjunction with Tennessee's capital budget as well as the capital budgets for all other rate jurisdictions within the Division, as part of the Division's total capital budget. The budgeting processes I have described herein applied to all rate division capital budgets that roll up into the Division's total capital budget, including Tennessee and the Division general office.

Q. WHAT IS THE PORTION OF THE DIVISION'S FY2012 CAPITAL BUDGET ALLOCATED TO TENNESSEE?

A. The portion of the approved FY2012 Division's general office capital budget allocated to Tennessee is $312,258.

Q. WHAT ABOUT SUBSEQUENT FISCAL YEARS?

A. Those forecasted amounts are $476,404 for FY2013 and $(259) for FY2014. The forecast methodology is described in the testimony of Company witness Mr. Waller. The attrition period includes only the months of October and November

from FY2014. The forecasting method utilizes actual spending from FY2012 to predict future years. In October of 2011 a reclassification of Information Technology spending from the general office to another jurisdiction was made. The result of that reclassification was negative spending for the general office for the month. This negative amount was then used in the forecast model to predict FY2013 and FY2014.

Q. HOW WAS THE SHARED SERVICES ATTRITION PERIOD CAPITAL BUDGET DEVELOPED?

A. The development of the Shared Service capital budget for the forecasted attrition period is described in Company witness Mr. Waller direct testimony.

Q. WHAT IS THE SHARED SERVICES FY2012 CAPITAL BUDGET ATTRIBUTABLE TO TENNESSEE?

A. The portion of the approved FY2012 Shared Services capital budget allocated to Tennessee is $1,854,353.

Q. WHAT ABOUT SUBSEQUENT FISCAL YEARS?

A. Those forecasted amounts are $1,034,287 for FY2013 and $178,443 for FY2014.

Q. PLEASE DISCUSS TENNESSEE'S OVERALL FORECASTED CONSTRUCTION PROGRAM.

A. Tennessee's capital budget was developed by the following major categories:

1. Equipment;
2. Growth;
3. Information Technology (IT);
4. Pipeline Integrity;

5. Public Improvements;

6. Structures;

7. System Improvements;

8. System Integrity; and

9. Vehicles.

Q. WHAT KEY NEEDS ARE MET THROUGH THIS PARTICULAR BUDGET?

A. System improvement, pipeline integrity, and system integrity investments focus on customer safety and system reliability, and are the highest priorities for capital budgeting. Specifically included in this budget are two safety enhancement projects that I will address in greater detail below. Next are public improvements and state and local public works projects such as highway relocations followed by customer growth. Atmos Energy continues to build good working relationships with developers, economic development boards, and growing communities to meet the needs of the customer and to accommodate customer growth on its system. Next in order of priority, a modern fleet of vehicles and equipment (backhoes, safety equipment, ditchers, first responder equipment, air compressors, welding machines, etc.) allows us to maintain our system and continue to provide a reliable level of service to our customers. To enhance the level of customer service provided in the field, we also continue to make investments in new technology. Technology is a strategic investment that will enable us to continue improving our business processes, hold down operating costs, and meet the changing expectations of our customers.

Q. PLEASE DESCRIBE THE TWO SAFETY ENHANCEMENT PROJECTS YOU PREVIOUSLY MENTIONED.

A. The attrition budget includes funding to expedite the bare steel pipe replacement program in Tennessee and to complete the replacement of a specific transmission line.

Q. PLEASE DISCUSS THE BARE STEEL PIPE REPLACEMENT PROGRAM.

A. The Order in Atmos Energy's 2007 rate filing, Docket No. 07-00105, generally provides for Atmos Energy to replace at least 45,000 feet per year of bare steel and cast iron pipe. At the time of the TRA's Order Atmos Energy had already completed the replacement of all known cast iron in Tennessee. Atmos Energy has been replacing bare steel pipe in compliance with this Order. Atmos Energy estimates that approximately 210,000 feet of bare steel main remains in its Tennessee distribution system and is proposing to increase the pace of the replacement program. Atmos Energy is proposing to replace at least 48,000 feet of bare steel main in FY2012, at least 97,000 feet of bare steel main in FY2013, with plans to replace the remaining known bare steel in FY2014.

Q. ARE THERE BENEFITS TO ATMOS ENERGY'S TENNESSEE CUSTOMERS BY EXPEDITING THE PIPE REPLACEMENT PROGRAM?

A. Yes. While Atmos Energy operates its system in a safe and reliable manner, the bare steel pipe in Atmos Energy's Tennessee system was installed primarily from the early 1940's until the mid-1960's, was not cathodically protected when

installed and over time has proven vulnerable to corrosion leaks. Atmos Energy has been actively replacing bare steel pipe in Tennessee for over thirty years and to date has replaced over 200 miles of bare steel pipe. Pursuant to the Company's distribution integrity management program Atmos Energy has evaluated threats to its system, ranked the risks and taken accelerated actions as appropriate. There are two accelerated actions Atmos Energy has taken on its bare steel pipe in Tennessee. The first action is more frequent leak survey which Atmos Energy performs on an annual frequency for its bare steel pipe as opposed to the three year interval required by the pipeline safety regulations. The other accelerated action is the replacement of the pipe which Atmos Energy has been accomplishing in compliance with the TRA's 2007 Order and which Atmos Energy now proposes to expedite. Atmos Energy's Tennessee customers will benefit from the expedited replacement program as it allows Atmos Energy's safe distribution system to become even safer.

Q. WHAT LEVEL OF CAPITAL EXPENDITURE RELATED TO BARE STEEL PIPE REPLACEMENT DOES ATMOS ENERGY ANTICIPATE INCURRING IN THE ATTRITION PERIOD?

A. Atmos Energy anticipates that its proposed expedited bare steel replacement program approach will result in capital expenditures of approximately $8.6 million during the attrition period.

Q. PLEASE DESCRIBE THE REPLACEMENT OF THE TRANSMISSION LINE YOU MENTIONED PREVIOUSLY.

A. Atmos Energy is planning the replacement of several segments of transmission main and associated appurtenances located in Rutherford County that serves customers in Smyrna and Murfreesboro as well as numerous environs customers. These facilities were installed in 1951 and are the Company's oldest transmission facilities located in Tennessee. Over the intervening years segments of the transmission line have been replaced but approximately 6 miles of the original installation remains in service. With the shifts in demographics this line now traverses a high consequence area as defined by the pipeline safety regulations. Pursuant to those regulations and Atmos Energy's own pipeline integrity plan Atmos Energy has successfully assessed the transmission line in the high consequence area. However, the age of the remaining original installation pipe segments which precede the adoption of the pipeline safety regulations that govern installation of new pipe coupled with urbanization along the pipeline corridor lead Atmos Energy to include within the attrition period a capital project to replace the remaining original installation segments of the transmission line with new materials and modern coatings. The new pipeline will be designed to operate at a lower stress level and it will no longer carry a transmission designation. Further, the project will eliminate numerous regulator stations and farm taps both of which are above ground facilities subject to vehicular damage and will allow Atmos Energy to continue to provide safe and reliable natural gas service to this area of Tennessee.

Q. WHAT LEVEL OF CAPITAL EXPENDITURE RELATED TO THE TRANSMISSION LINE REPLACEMENT DOES ATMOS ENERGY

ANTICIPATE TO INCUR DURING THE ATTRITION PERIOD IN THIS PROCEEDING?

A. Atmos Energy is anticipating transmission main replacement projects with capital expenditures budgeted at approximately $6.1 million during the attrition period.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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VERIFICATION

STATE OF TENNESSEE)
)
COUNTY OF WILLIAMSON)

I, Earnest B. Napier, being first duly sworn, state that I am the Vice President of Technical Services for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Testimony of Earnest B. Napier in Support of Atmos Energy Corporation's Petition and the Exhibits thereto pre-filed in this docket on the date of filing of this Petition are true and correct to the best of my knowledge, information and belief.

Earnest B. Napier

Sworn and subscribed before me this 14th day of June, 2012.

Notary Public

PAMELA PLEASANT
STATE OF TENNESSEE
NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires: May 3, 2016