

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

August 24, 2012

IN RE:

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 12-00085**

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

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Regulatory Authority (the "Utilities Division") hereby gives notice of its filing of the 2012 Atmos Energy Corporation WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Atmos Energy Corporation (the "Company").
2. The Company's WNA filings were received on November 1, 2011, through April 30, 2012, and the Staff completed its audit of same on August 2, 2012.
3. On August 3, 2012, the Utilities Division submitted its preliminary WNA audit findings to the Company via e-mail. The Company responded on August 7, 2012 via e-mail and this response has been incorporated into the final report. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

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

Respectfully Submitted:



Patsy Fulton
Utilities Division
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 24th day of August 2012, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Earl Taylor
Executive Director
460 James Robertson Parkway
Nashville, Tennessee 37243

Kenneth C. Hill
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Ms. Patricia Childers
Vice President of Regulatory Affairs
Kentucky/Mid-states Division
Atmos Energy Corporation
810 Crescent Centre Drive, Suite 600
Franklin, TN 37067-6226

Ms. Marsha Smith
Rate Analyst
Atmos Energy Corporation
5420 LBJ Freeway Suite 1600
Dallas TX 75240

Ryan McGehee, Esq.
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202-0207

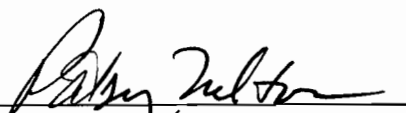

Patsy Fulton

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 12-00085

TENNESSEE REGULATORY AUTHORITY

UTILITIES DIVISION

August 2012

COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 12-00085

TABLE OF CONTENTS

	<u>PAGE NO.</u>
I. INTRODUCTION AND AUDIT OPINION	1
II. SCOPE OF AUDIT	1
III. BACKGROUND INFORMATION ON THE COMPANY	2
IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER	2
V. IMPACT OF WEATHER NORMALIZATION ADJUSTMENT RIDER	4
VI. WNA AUDIT FINDINGS	11
VII. CONCLUSIONS AND RECOMMENDATIONS	13
ATTACHMENT 1 (WEATHER NORMALIZATION ADJUSTMENT RIDER)	

COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 12-00085

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (“WNA”) Rider of Atmos Energy Corporation (“Atmos” or “Company”). The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers’ bills appropriately between November 2011 and April 2012. As a result of the WNA Rider, the Company surcharged a net \$1,709,895 and \$1,208,155 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company’s total revenues is detailed in Section V.

The Audit Staff’s (“Staff”) audit resulted in one (1) finding regarding the WNA, showing that the Company **over-collected \$36,006.02** from customers. See Section VI for a description of the Staff’s finding. Except for the finding noted in this report, Staff concludes that Atmos is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Regulatory Authority (“TRA” or the “Authority”) and included in the Company’s tariff (See Attachment 1).

II. SCOPE OF AUDIT

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

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

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

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

III. BACKGROUND INFORMATION ON THE COMPANY

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

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

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

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

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

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

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

² *In Re: Petition of Atmos Energy Corporation for Approval of the Contract(s) Regarding Gas Commodity Requirements, Etc.*, Docket No. 11-00034.

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

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

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

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

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

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

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

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

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

V. IMPACT OF WEATHER NORMALIZATION ADJUSTMENT RIDER

The following tables summarize a comparison of actual heating degree days (“ADD”) to normal heating degree days (“NDD”) by month for Atmos Energy Corporation during the 2011 – 2012 heating season, in each of its four service areas.⁷ During the past winter, overall, weather was 22.52% warmer in the Bristol area, 23.37% warmer in the Knoxville area, 22.88% warmer in the Nashville area, and 23.95% warmer in the Paducah area compared to normal weather.

Bristol:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2011	298	303	Warmer
November 2011	478	570	Warmer
December 2011	682	843	Warmer
January 2012	764	939	Warmer
February 2012	638	768	Warmer
March 2012	250	561	Warmer
April 2012	214	306	Warmer
Total	3,324	4,290	Warmer

Knoxville:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2011	227	210	Colder
November 2011	412	470	Warmer
December 2011	611	733	Warmer
January 2012	666	841	Warmer
February 2012	540	672	Warmer
March 2012	175	467	Warmer
April 2012	143	227	Warmer
Total	2,774	3,620	Warmer

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

Nashville:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2011	207	189	Colder
November 2011	387	460	Warmer
December 2011	650	744	Warmer
January 2012	663	859	Warmer
February 2012	554	684	Warmer
March 2012	174	462	Warmer
April 2012	<u>153</u>	<u>217</u>	Warmer
Total	<u>2,788</u>	<u>3,615</u>	Warmer

Paducah:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
October 2011	232	236	Warmer
November 2011	422	531	Warmer
December 2011	716	855	Warmer
January 2012	766	982	Warmer
February 2012	631	773	Warmer
March 2012	189	530	Warmer
April 2012	<u>210</u>	<u>256</u>	Warmer
Total	<u>3,166</u>	<u>4,163</u>	Warmer

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

The net impact that the WNA Rider had on the Company's revenues was that residential and commercial customers were **surcharged** \$1,709,895 and \$1,208,155 respectively. This equates to an increase in revenues from residential and commercial sales of 3.58% and 4.09% respectively. (See Table 1) During the previous year, warmer than normal weather resulted in residential and commercial customers being **refunded** \$62,035 and \$54,845 respectively. (See Table 2 for a comparison of the last three heating seasons.)⁸

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

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
November 2011- April 2012**

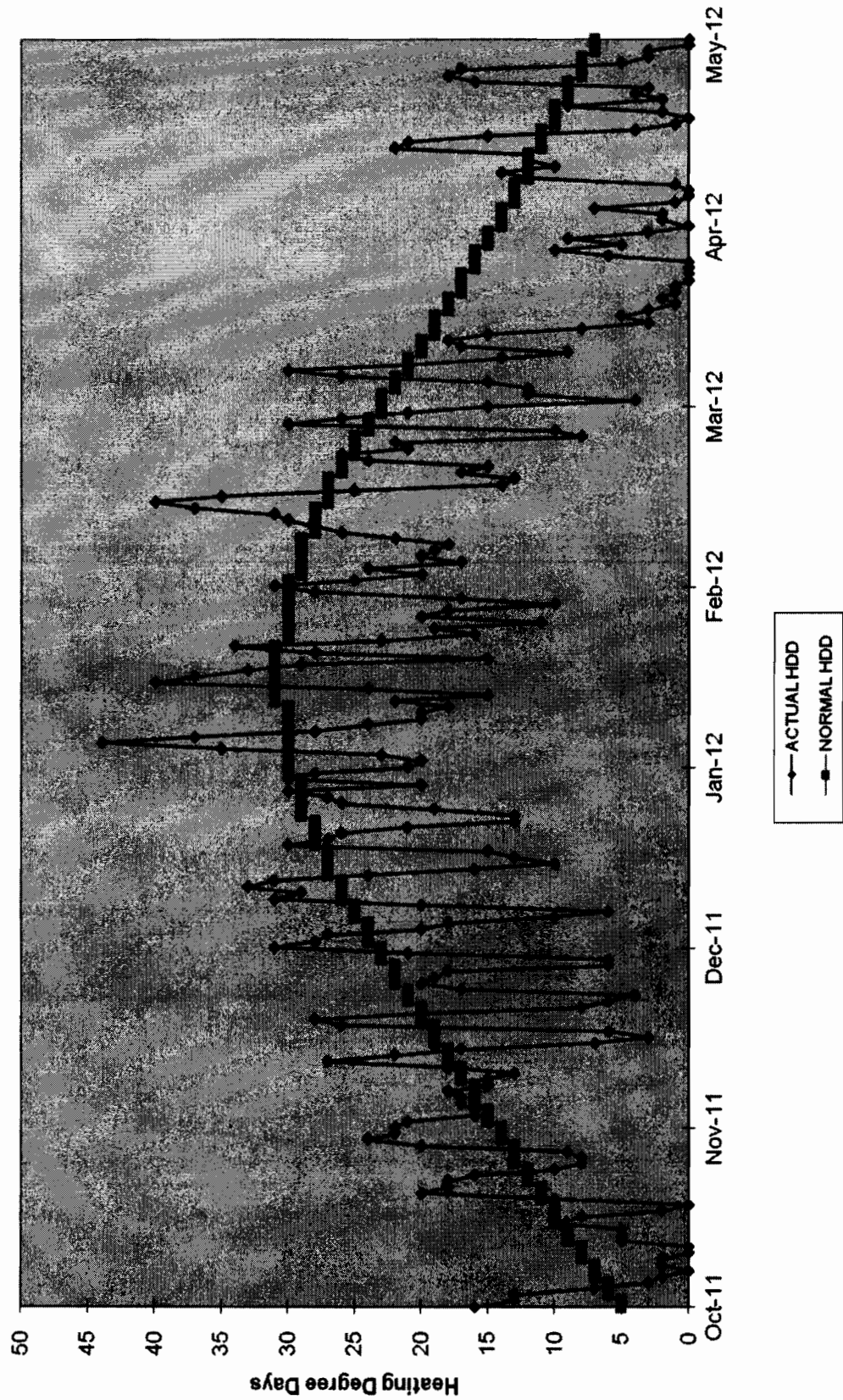
	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider On Revenues</u>
Residential Sales	\$1,709,895	\$47,771,155	3.58%
Commercial Sales	<u>\$1,208,155</u>	<u>\$29,524,482</u>	4.09%
Total	<u>\$2,918,050</u>	<u>\$77,295,637</u>	3.78%

Table 2

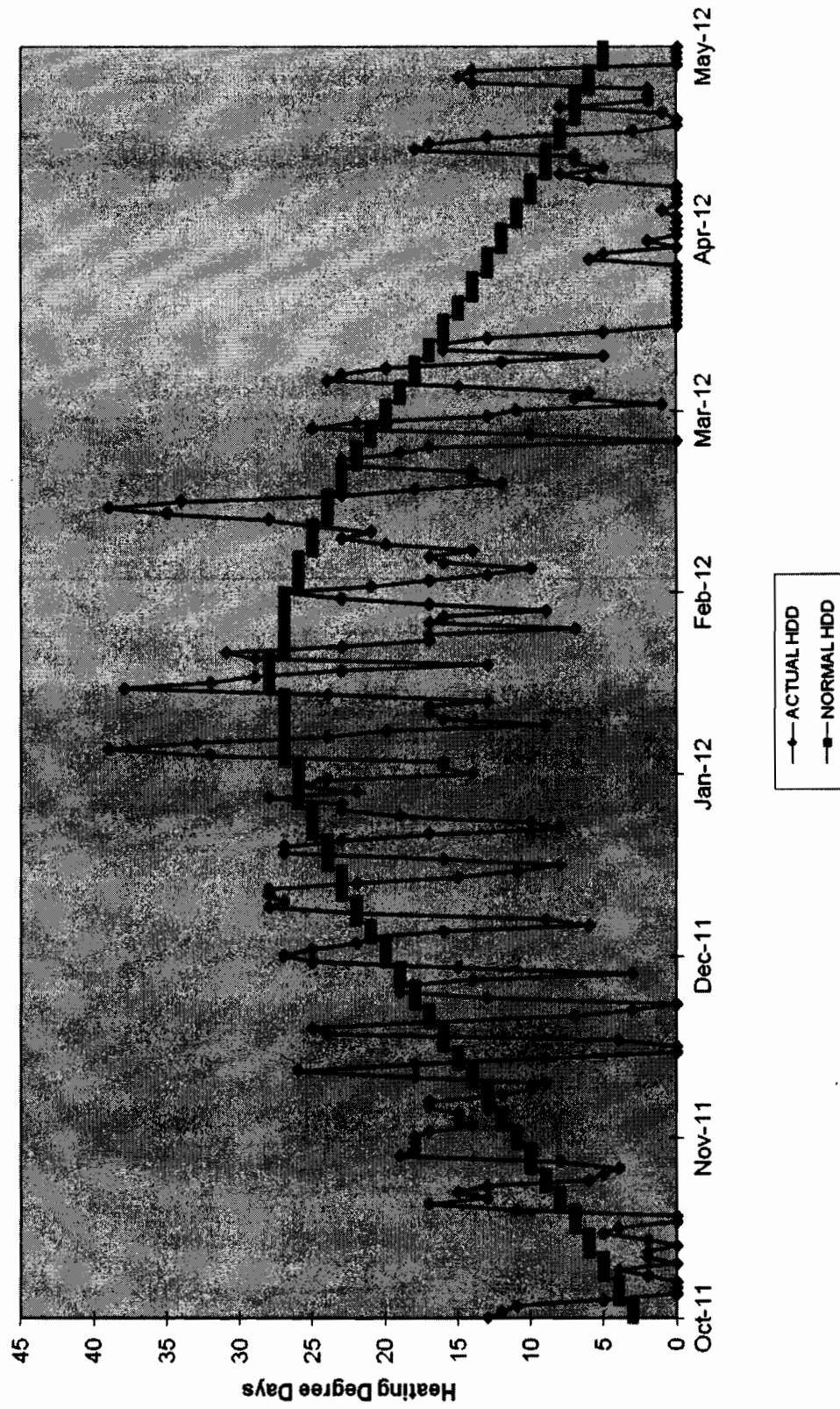
**Amount Surcharged (Refunded)
2009 - 2012**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
11/09-4/10	(647,412)	(438,903)	(1,086,315)
11/10-4/11	(62,035)	(54,845)	(116,880)
11/11-4/12	<u>1,709,895</u>	<u>1,208,155</u>	<u>2,918,050</u>
Total	<u>\$1,000,448</u>	<u>\$ 714,407</u>	<u>\$1,714,855</u>

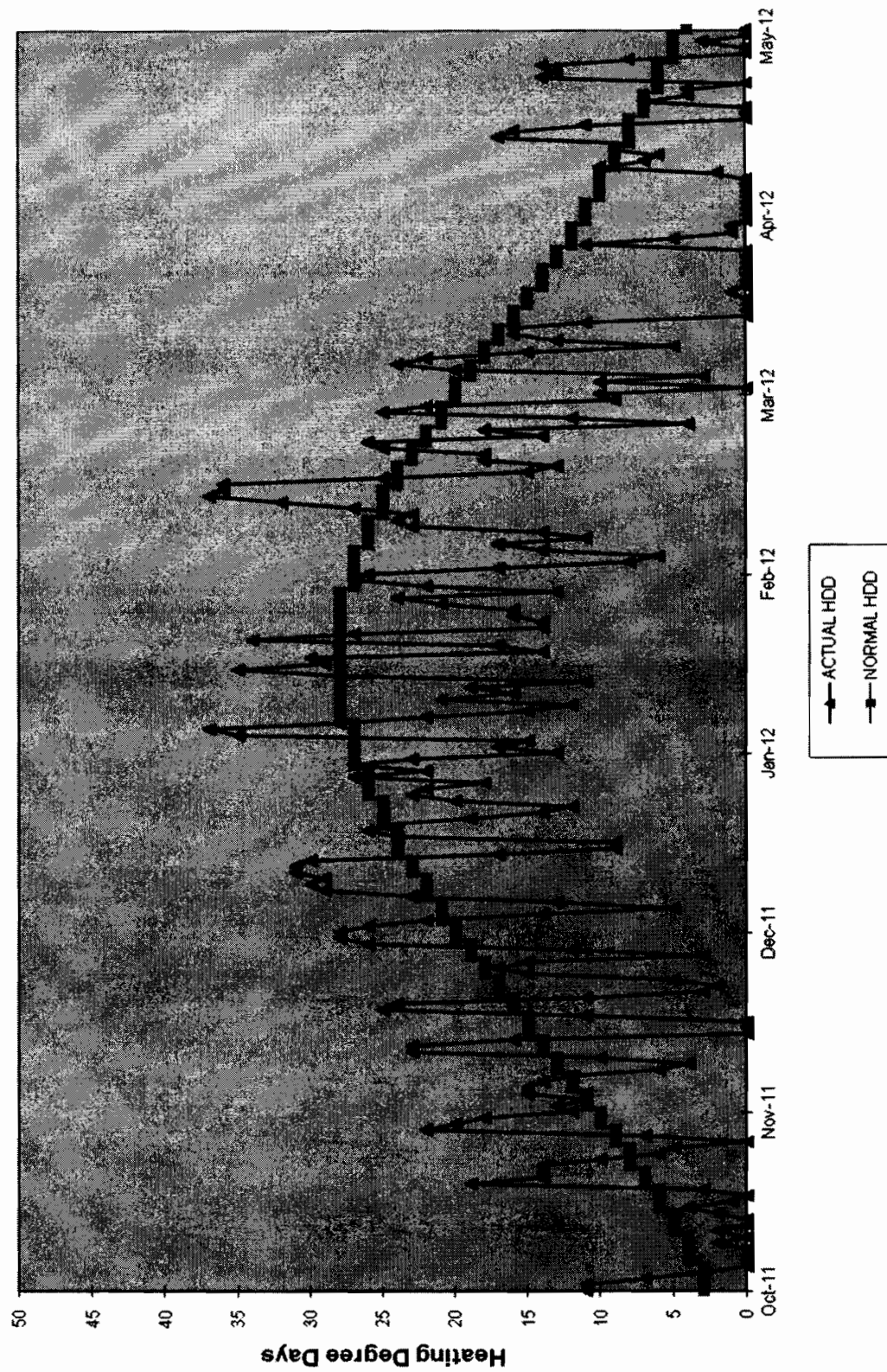
**Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Bristol Weather Station**



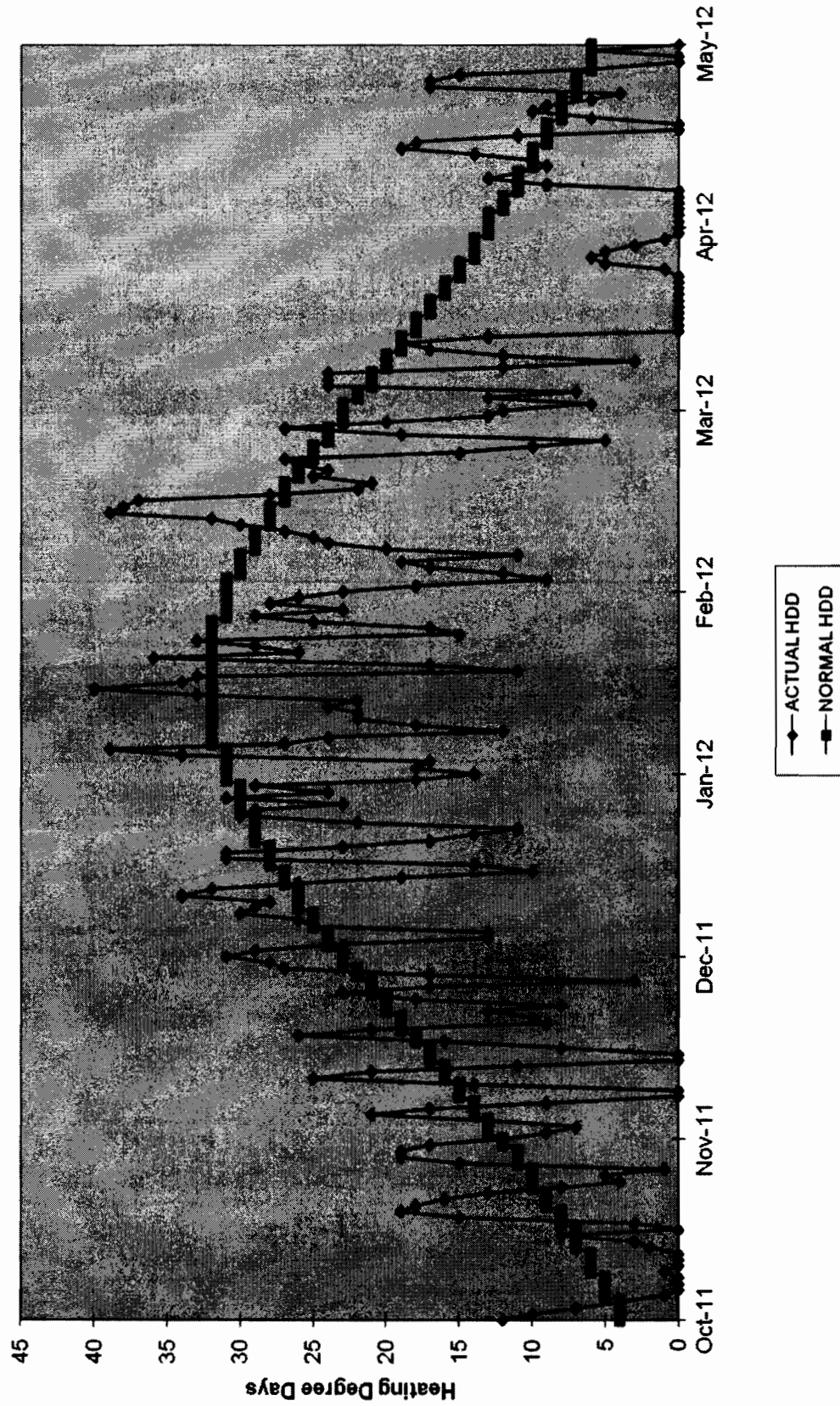
Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Knoxville Weather Station



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



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



VI. WNA AUDIT FINDINGS

As noted in Section I of this report, Staff's audit resulted in one WNA finding. The Company used incorrect actual heating degree days for twelve (12) days out of the WNA period in their WNA calculations. This difference resulted in an over-recovery from the Company's customers of \$36,006.02. A detailed discussion of the finding follows.

FINDING #1:

Exception

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

Discussion

The audit period consisted of 852 weather observations (213 days in the period times four weather stations). Audit results indicate that the Company used inaccurate actual daily heating degree days in the calculation of the WNA factor for one (1) day for the Bristol weather station, two (2) days for the Knoxville weather station, seven (7) days for the Nashville weather station and two (2) days for the Paducah weather station for a total of twelve (12) weather observations. These inaccuracies are due to differences in daily heating degree days published in NOAA's Local Climatological Data report⁹ and the daily heating degree days that the Company used in calculating its WNA factors.¹⁰ In order to timely bill its customers, the Company must obtain actual degree day information from its weather information source(s) on a real time basis. The WNA Rider and the Staff's audit of this Rider are based on the official NOAA publication. Therefore, Staff recognizes that discrepancies can be caused by the Company's weather information source through no fault of the Company.

Weather Station/ Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
<u>Bristol:</u>			
4/6/2012	11	12	1
		Total	<u>1</u>
<u>Knoxville:</u>			
2/5/2012	13	14	1
3/5/2012	22	23	1
		Total	<u>2</u>

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

¹⁰ See Table below for detail of the differences.

Weather Station/ Date	Company Actual Degree Days	NOAA Actual Degree Days	Difference
<u>Nashville:</u>			
11/3/2011	5	15	10
11/9/2011	9	10	1
1/2/2012	34	35	1
2/11/2012	36	37	1
2/19/2012	24	25	1
3/2/2012	2	3	1
4/8/2012	5	6	1
		Total	<u>16</u>
<u>Paducah:</u>			
3/2/2012	6	7	1
3/3/2012	23	24	1
		Total	<u>2</u>
		Net of 4 stations	<u>21</u>

Recommendation

These heating degree day differences resulted in a **net over-recovery of \$36,006.02** in WNA revenues. Since the dollar amount of this finding is immaterial on a per customer basis, Staff recommends that the Company include the over-recovery in its next Actual Cost Adjustment filing, as has been its custom.

Company Response

Atmos Energy acknowledges use of preliminary data for its monthly billing of WNA when actual NOAA data was not yet available. The Company agrees that \$36,006.02 in net over-recovery is a reasonable assessment of the impact of these billing inaccuracies for the 2011-2012 heating season. We agree to include this correction in the next ACA filing as recommended.

VII. CONCLUSIONS AND RECOMMENDATIONS

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

ATTACHMENT 1

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDERProvisions for Adjustment

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

Definitions

For purpose of this Rider:

"Regulatory Authority" means the Tennessee Regulatory Authority

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

Computation of Weather Normalization Adjustment

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

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

Where

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

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER (Continued)

- HSF_i = heat sensitive factor for the ith schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- NDD = normal billing cycle heating degree days utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
- ADD = actual billing cycle heating degree days
- BL_i = base load sales for the ith schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

Filing with Regulatory Authority

The Company will file as directed by the Regulatory Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

Heat Use/Base Use Factors

<u>Town</u>	<u>Residential/PA</u>		<u>Commercial</u>	
	<u>Base use Ccf</u>	<u>Heat use Ccf/HDD</u>	<u>Base use Ccf</u>	<u>Heat use Ccf/HDD</u>
Union City	10.43	.124185	112.80	.416839
Columbia Shelbyville Franklin Murfreesboro	11.34	.147091	112.93	.473009
Maryville Morristown	11.39	.122329	195.74	.392082
Johnson City Elizabethton Kingsport Greeneville Bristol	11.51	.112572	125.95	.489418

C

C

C

C

C