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LARRY W. LINDEEN

Docket No. 13-00111

August 13, 2013

**VIA HAND DELIVERY & E-MAIL**

Sharla Dillon

Dockets Manager

Tennessee Regulatory Authority

460 James Robertson Pkwy.

Nashville, TN 37243-0505

[sharla.Dillon@tn.gov](mailto:sharla.Dillon@tn.gov)

RE: Petition of Atmos Energy Corporation to Revise Performance Based Ratemaking Mechanism Rider in Tariff

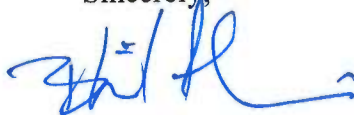
Dear Ms. Dillon:

I am enclosing with this letter an original and four (4) copies of the following for filing with the Tennessee Regulatory Commission:

1. Petition to Revise Performance Based Ratemaking Mechanism Rider in Atmos Energy Corporation's Tariff; and
2. Direct Testimony of Rebecca M. Buchanan on Behalf of Atmos Energy Corporation.

I have also enclosed our firm check in the amount of \$25.00 for the filing fees. If you have any questions regarding the enclosed material, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to be 'Blind Akrawi', with a stylized flourish at the end.

Blind Akrawi

BXA/alw

Enclosures

Cc: Vance L. Broemel, Esq. (Via e-mail only)  
Scott Ross, Esq. (Via e-mail only)

**IN THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

<b>IN RE:</b>	)	
	)	
<b>PETITION OF ATMOS ENERGY</b>	)	
<b>CORPORATION TO REVISE</b>	)	
<b>PERFORMANCE BASED</b>	)	<b>TRA Docket No. 13-_____</b>
<b>RATEMAKING MECHANISM RIDER</b>	)	
<b>IN TARIFF</b>	)	

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**PETITION TO REVISE PERFORMANCE BASED RATEMAKING MECHANISM  
RIDER IN ATMOS ENERGY CORPORATION'S TARIFF**

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Pursuant to Tennessee Regulatory Authority ("TRA" or "Authority") Rule 1220-4-1-.06 and Tenn. Code Ann. § 65-4-104, Atmos Energy Corporation ("Atmos" or "Company") respectfully requests that the TRA approve revisions to its Performance-Based Ratemaking Mechanism (the "PBRM") tariff rider. Specifically, Atmos proposes to remove a provision requiring readjustment of the deadband at the end of each three-year period to 1% below the most recent annual audited results of the incentive plan. Additionally, Atmos respectfully requests that the TRA approve four other housekeeping changes to its tariff. These changes, more fully described below and in the written direct testimony of Rebecca Buchanan, filed contemporaneously herewith, will allow Atmos to operate more efficiently, restore appropriate incentives under the PBRM tariff, and remove outdated portions of the tariff. A copy of the revised tariff is attached hereto as Exhibit 1.

In support of this Petition, Atmos respectfully submits the following information:

1. Full name and address of the principal place of business of the company are:

Atmos Energy Corporation  
5430 LBJ Freeway S 1800

Dallas, TX 75240

2. All correspondence and communications with respect to this Petition should be sent to the following:

Patricia D. Childers  
Vice President, Rates & Regulatory Affairs  
Mid-States Division  
Atmos Energy Corporation  
810 Crescent Centre Drive, Suite 600  
Franklin, TN 37067-6226  
(615) 771-8301 – Facsimile

A. Scott Ross, Esq.  
Neal & Harwell, PLC  
2000 One Nashville Place  
150 Fourth Avenue, North  
Nashville, TN 37219-2498  
(615) 726-0573 – Facsimile

Douglas C. Walther, Esq.  
Associate General Counsel  
Atmos Energy Corporation  
P. O. Box 650205  
Dallas, TX 75265-0205  
(972) 855-3080 – Facsimile

3. Atmos is incorporated under the laws of the state of Texas and is engaged in the business of transporting, distributing, and selling natural gas. Atmos serves approximately 130,000 residential, commercial, and industrial customers in Tennessee. Atmos is a public utility pursuant to the laws of the state of Tennessee and its public utility operations are subject to the jurisdiction of this Authority.

4. Atmos seeks to amend its PBRM tariff rider. The PBRM replaces the reasonableness or prudence review of the Company's gas purchasing activities overseen by the TRA in accordance with Rule 1220-4-7-.05, Audit of Prudence of Gas Purchases. 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 shared savings or costs between the utility's customers and share holders. By its terms, the PBRM is to continue until it is either: (a) terminated at the end of 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.

5. Atmos proposes to amend the PBRM by deleting the final sentence of the Commodity Costs section of the Gas Procurement Incentive Mechanism ("GPIM"), which currently provides:

"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."

6. Pursuant to the GPIM in the tariff, Atmos is required to compare its commodity cost of gas to the appropriate benchmark amount on a monthly basis. The benchmark amount is computed by multiplying actual purchase quantities for the month, including quantities purchased for injection into storage, by the appropriate benchmark price indices.

7. If the total commodity cost of gas in a month falls within a deadband of 97.7% to 102% surrounding the benchmark amounts, there are no incentive savings or costs to be shared by the Company. If the total commodity cost of gas falls outside of the deadband, the amount falling outside of the deadband is deemed incentive savings or costs under the mechanism. Such savings or costs are shared 50/50 between the Company's customers and the Company.

8. At the end of each three-year period, the deadband is readjusted to 1% below the most recent annual audited results (of actual cost) of the incentive plan. It is this provision that Atmos seeks to remove from the tariff. This deadband re-set provision causes distorted incentives and does not serve the overall interests of the PBRM tariff. It is unique to the Atmos tariff and should be removed. As explained in the accompanying testimony, readjustment of the

deadband at the end of each three-year period is not in the best interest of the end consumer or Atmos.

9. Atmos proposes to delete this deadband reset provision. Going forward, Atmos would utilize a deadband of 97.7% to 102% of the total benchmark amounts for the GPIM portion of the PBRM, with no provision for triennial readjustment.

10. In addition to amendment of the PBRM contained within the tariff, Atmos proposes to amend its tariff to delete the Natural Gas Intelligence (NGI) index from the GPIM basket of benchmark indices. (1<sup>st</sup> Revised Sheet No. 45.2). The NGI index is not used in any of the Company's eight states for gas supply pricing. Nor is it used in any PBRMs other than Tennessee's. This index is proprietary, and its use in Tennessee requires the company to carry an annual subscription. The index closely tracks the other indices that are used in the Atmos PBRM and adds no significant additional information to those other indices.

11. The Company further proposes to amend its tariff to delete the 2nd paragraph on 1st Revised Sheet No. 45.2 which is an outdated reference to the Nora supply contract of 1993. The 1993 contract was in effect prior to the implementation of the PBRM and therefore was excluded in the calculation of savings until the contract was renewed or renegotiated. This contract has since been renegotiated and has been included in the PBRM, pursuant to TRA's Order in Docket No. 00-00844, effective with the April 2001 Plan Year.

12. The Company further proposes to amend its tariff to edit the Request for Proposal (RFP) Procedures set forth on 2<sup>nd</sup> Revised Sheet No. 45.3. Paragraph 2 of the Procedures states that "*the RFP shall be advertised for a minimum period of thirty (30) days through a systematic notification process*" and allows the thirty (30) day period to be shortened with the written consent of the TRA Staff. The proposed replacement language would read as follows: "*the RFP*

*shall be advertised twice in a thirty (30) day period as part of a systematic notification process”.*

This housekeeping change will conform the literal terms of the tariff to what the Company's approved practice has been since its first RFP.

13. Finally, the Company proposes to revise its tariff to remove the Reserve Margin language found on 2<sup>nd</sup> Revised Sheet No. 45.6, to better capture the approved process used by the Company in determining the coldest day, and to delete outdated references to liquefied natural gas and propane storage facilities that no longer exist. The applicable sentences of the Reserve Margin section currently read: *“The projected peak day requirement shall be based upon a five year 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.”* The proposed replacement language would read as follows: *“The projected peak day requirement shall be based upon the coldest day on record since 1970. All firm peak day capacity contracted for by the Company shall be considered as gas available to meet peak day demand.”*

**WHEREFORE**, Atmos respectfully requests that the Tennessee Regulatory Authority approve the amended Tariff attached hereto as Exhibit 1 pursuant to Tennessee Code Annotated § 65-4-104.

Respectfully submitted,

**NEAL & HARWELL, PLC**

By: 

A. Scott Ross, #15634

Blind Akrawi, #023213

2000 One Nashville Place  
150 Fourth Avenue, North  
Nashville, TN 37219-2498  
(615) 244-1713 – Telephone  
(615) 726-0573 – Facsimile


*Counsel for Atmos Energy Corporation*



**VERIFICATION**

STATE OF TENNESSEE       )  
  )  
COUNTY OF WILLIAMSON    )

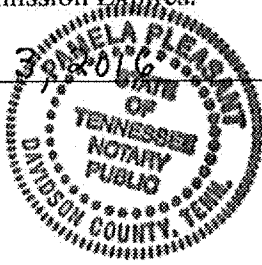
I, Kevin Akers, being duly sworn state that I am the President of the Mid-States and Kentucky Division of Atmos Energy Corporation, the Petitioner in the subject proceeding; that I am authorized to make this verification on behalf of Atmos Energy Corporation; that I have read the foregoing Petition and Exhibits and know the content thereof; that the same are true and correct to the best of my knowledge, information and belief,

  
Kevin Akers

SWORN to and subscribed before me  
this 13<sup>th</sup> day of August, 2013.

  
Notary Public

My Commission Expires:

MAY 3 2016  


# EXHIBIT 1

## ATMOS ENERGY CORPORATION

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

If the total commodity cost of gas in a month falls within a deadband of 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.

**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).

**ATMOS ENERGY CORPORATION****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:

1. 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 alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. Under all circumstances, beneficial ownership of more than ten percent (10%) of voting securities or partnership interest of an entity shall be deemed to confer control for purposes of these guidelines of conduct.
3. Marketing, as used in this standard, means selling or brokering natural gas to any person or entity, including the Company, by a seller that is not a local distribution company.

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

1. In each instance in which Atmos Energy Corporation (Company) intends to engage the services of an asset manager to provide system gas supply requirements and/or manage its assets regulated by the Tennessee Regulatory Authority (TRA), the Company shall develop a written request for proposal (RFP) defining the Company's assets to be managed and detailing the Company's minimum service requirements. The RFP shall also describe the content requirements of the bid proposals and shall include procedures for submission and evaluation of the bid proposals.
2. The RFP shall be advertised twice in a thirty (30) day period as part of a systematic notification process. This thirty (30) day minimum period may be shortened with the written consent of the TRA Staff to a period of not less than fifteen (15) days.
3. The procedures for submission of bid proposals shall require all initial and follow-up bid proposals to be submitted in writing on or before a designated proposal deadline. The Company shall not accept initial or follow-up bid proposals that are not written, or that are submitted after the designated proposal deadline. Following receipt of initial bid proposals, and on a non-discriminatory basis, the Company may solicit follow-up bid proposals in an effort to obtain the most overall value for the transaction.

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**ATMOS ENERGY CORPORATION**

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

**Complaints:**

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

1. Any customer, marketer, or other interested third-party may file a complaint with the Authority relating to alleged violations of the affiliate standards set forth in these guidelines. At or before the time of filing, the complainant shall serve a copy of the complaint on the Company.
2. Within ten (10) days of service of the complaint upon the Company, the Company shall file a written response to the complaint with the Authority.
3. The Authority may hold hearings on any complaint filed or may take such other action (as it may deem appropriate), including requesting further information from the parties or dismissing the complaint.
4. After notice and opportunity for a hearing, should the Authority find that the Company has violated the standards contained in these guidelines, the Authority may impose any penalty or remedy provided for by law.

**Reserve Margin**

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

All capacity available to meet the peak day demand in excess of an amount needed to meet the base period peak day demand plus a 7.5% reserve margin must be shown by the Company to be necessary to meet its customers' requirements before it can be included in the PGA. All capacity available to meet demand less than an amount of base period demand plus a 7.5% reserve margin is presumed to be reasonable unless a factual showing to the contrary is made.

**Determination of Shared Savings**

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

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**Issued by:** Patricia J. Childers, VP Rates and Regulatory Affairs  
**Date Issued:** August \_\_, 2013

**Effective Date:** August \_\_, 2013

**IN THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**IN RE:** )  
 )  
**PETITION OF ATMOS ENERGY** )  
**CORPORATION TO REVISE** )  
**PERFORMANCE BASED** ) **TRA Docket No. 13-\_\_\_\_\_**  
**RATEMAKING MECHANISM RIDER** )  
**IN TARIFF** )

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

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**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" 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, Kentucky and Virginia.

**Q. Have you ever testified before this Commission?**

A. Yes, in Docket No. 91-01712, Docket No. 11-00034 and Docket No. 11-00195. 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, Docket No. 34118 and Docket No. 35876), 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. What is the scope of your testimony in this proceeding?**

A. My testimony relates to the Company's request to revise the Performance Based Ratemaking Mechanism ("PBRM") Rider as set forth in Tariff No. 1, at Tariff Sheet Nos. 45.1 through 45.9. The method of calculating shared savings contained in the PBRM is unique to Atmos and not required of other public utilities providing natural gas services. Specifically, my testimony demonstrates how neither Atmos nor the end consumer is served by continuation of this unique methodology within the PBRM.

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

A. The Company's permanent 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." (Third Revised 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. Modifications have been made over time. For example, in Docket 05-00253, (June 25, 2007 Authority Conference), the Authority approved Atmos' tariff filed April 5, 2007 which implemented RFP procedures for the selection of an asset manager, citing that the proposed RFP procedures are identical to the procedures previously approved by the Authority in Docket No. 04-00402 for Chattanooga Gas Company. The Authority also approved in Docket 11-00195 a settlement agreement between the Company and the Consumer Advocate and Protection Division whereby Atmos would file revised tariff language relative to the review process of the PBR, similar to language in 07-00224 (Chattanooga Gas Company) and 05-00165 (Piedmont Natural Gas). The Authority also approved in Docket 11-00034 Atmos's proposed tariff filed on August 9, 2011 clarifying the sharing of asset management fee, consistent with language in Piedmont Natural Gas's tariff. The differences remaining are the requirement that Atmos's has a deadband, a re-setting of the deadband, a lower cap for retained sharing of savings and a specified reserve margin.

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

A. Yes. A copy of the Company's PBRM Tariff is included in Exhibit A.

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

A. Yes. The Piedmont Natural Gas Company's Performance Incentive Plan is included in Exhibit B hereto. 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 Company's current Performance Based Ratemaking Mechanism Rider.**

A. The current PBRM replaced the Purchase Gas Adjustment Rules pursuant to TRA Rule Section 1220-4-7-.05, which was the traditional method of determining whether Atmos was performing reasonably in managing and acquiring its gas supply. The experimental PBRM was approved by the Authority on May 12,

1995 as a two-year experiment, and as mentioned above, permanently approved in 1999. The PBRM was designed to do the following:

- Lower regulatory costs,
- Provide up-front regulatory oversight enabling the elimination of after-the-fact prudency reviews for gas costs,
- Promote successful cost management,
- Develop an environment to enhance the Company's competitive position in the energy industry.

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

A. The Atmos PBRM consists of two parts, a gas procurement incentive mechanism ("GPIM"), and a capacity management incentive mechanism. The GPIM is the part that is relevant to this case. Under the GPIM, a benchmark is set utilizing relevant market based gas prices. The Atmos PBRM tariff includes a deadband. Even if Atmos procures gas for less than the market price benchmarks, Atmos shares nothing under its PBRM unless Atmos beats the benchmarks by enough to fall below the lower limit of the deadband. By its terms, the Tariff sets the deadband at 97.7% to 102%. If Atmos's total commodity cost of gas in a month falls within a deadband of 97.7% to 102% surrounding the benchmark amounts, there are no incentive savings or costs to be shared by the Company. If the total commodity cost of gas falls outside of the deadband, the amount falling outside of the deadband is deemed incentive savings or costs under the mechanism. Such savings or costs are shared 50/50 between the Company's customers and the Company. The Atmos tariff contains a unique provision by which the deadband re-sets every three years. At the end of each three-year period, the deadband is readjusted to 1% below the most recent annual audited results (of actual cost) of the incentive plan. As discussed further below, this deadband re-set provision causes distorted incentives and does not serve the overall interests of the PBRM tariff. It is unique to the Atmos tariff, serves as a disincentive for pursuing least cost alternatives and therefore should be removed.

**Q. What is the problem with the GPIM as it is currently designed?**

A. The sharing of gas procurement savings and costs, of and by itself, is an excellent incentive for the Company to manage its gas costs and prudently procure gas supplies. However as the Company achieves greater savings, the “re-set” feature has an undesirable treadmill effect. As Atmos works hard and ultimately beats its market benchmarks over a period of time, the lower end of the deadband is reduced, and Atmos is denied any share of the savings it has produced. Eventually the achieved savings cause the lower end of the deadband to be set so low that all the savings fall within the deadband and thus the Company does not share in those savings, even though the Company is performing exceptionally well as compared to the market. This deadband re-set feature thus causes the GPIM to become a disincentive for further savings. At the point where the Company has achieved a high level of savings sustained over several years, and the deadband has been lowered through this re-set feature, the only way for the deadband to adjust back to a reasonable range that once again allows savings, would be through higher gas costs. Higher gas costs relative to the benchmark level would cause the lower bound of the deadband to be raised under the re-set provision. The Company would not intentionally cause gas costs to increase, but rather without the incentives for greater savings, the Company would redirect its limited resources toward jurisdictions that incentivize progressive thinking and the extra effort required to develop and negotiate greater savings. The economically optimal response to this unique deadband re-set provision thus becomes a practice of triennial cycling – one three year period of efforts directed toward other jurisdictions and market level gas costs, which causes the deadband to be re-set to a reasonable level, followed by a three year period of efforts focused toward the Tennessee jurisdiction and market-beating gas costs, which allows the company to obtain some sharing of the investment it has made in gas cost reduction, but which resets the deadband once again to an unattainably low level. This sequence repeats in a roller coaster pattern. Atmos must dedicate manpower and other resources to an effort to reduce gas costs below market benchmarks. Such efforts reap benefits to consumers through lower gas costs. The GPIM should incentivize those efforts *every* year. Unfortunately, the

deadband re-set provision of the Atmos PBRM tariff does not accomplish that goal for the reasons discussed.

**Q. How does Atmos propose to change the PBRM tariff?**

A. Atmos seeks to revise Tariff Sheet 45.2 to delete the final sentence of the GPIM requiring the deadband to be readjusted every three years. The provision Atmos requests be deleted reads: "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." Going forward, Atmos would utilize a deadband of 97.7% to 102% of the total benchmark amounts for the GPIM, with no provision for readjustment.

**Q. How has Atmos performed in comparison to the GPIM market based benchmark?**

A. Since April 2001, Atmos has saved consumers \$19.6 million in commodity costs as compared to the benchmark. Due to the deadband(s), the customer has received 100% of the first \$12 million in savings. Atmos has realized less than \$3 million through the GPIM sharing, or 15% of commodity savings.

**Q. Do you know how Atmos's savings (commodity costs) compare to other utility savings in recent years?**

A. Yes. TRA Staff's review of Piedmont Natural Gas (PNG) Company's annual IPA report shows that for the plan years ending 6/30/2011 and 6/30/2012, PNG purchased at 98.66% and 97.27% of the benchmark with total savings of \$1.1 million and \$1.3 million for those years, respectively. Of those savings, PNG shared from the first dollar of savings, as there is no deadband beyond which PNG must save before sharing begins.

In comparison, for those two years, Atmos purchased at 98.2% and 91.1% of the benchmark with total savings of \$1.1 and \$4.6 million for those years, respectively. There was no sharing of the first \$2 million in savings that fell within the deadband.

**Q. Do the other utilities have a deadband within their PBRM?**

A. No.

**Q. Is Atmos limited to a total amount of shared savings it may retain in each plan year?**

A. Yes. There is an annual cap on the total amount that Atmos may receive under the PBRM. Atmos is limited to \$1.25 million each year.

**Q. What are the annual caps on the other utilities' incentive sharing amounts?**

A. PNG is limited to \$1.6 million shared savings and Chattanooga is not limited, although their plan is different from PNG's and Atmos' in that there is no sharing on the "commodity cost" component of their plan.

**Q. Is Atmos requesting an increase in the current allowed cap?**

A. No.

**Q. Is the Company proposing other changes to its PBRM tariff?**

A. The Company is proposing four other relatively minor changes to its tariff.

First, the Company is proposing to delete the Natural Gas Intelligence (NGI) index from the GPIM benchmark basket of indices. (1<sup>st</sup> Revised Sheet No. 45.2). The NGI index is not used in any of the Company's eight states for gas supply pricing, nor is it used in any PBRMs other than Tennessee's. This index is proprietary, and its use in Tennessee requires the company to carry an annual subscription. The index closely tracks the other indices that are used in the Atmos PBRM and adds no significant additional information to those other indices.

Second, the Company is proposing to delete the 2<sup>nd</sup> paragraph on 1<sup>st</sup> Revised Sheet No. 45.2 which is an outdated reference to the Nora supply contract of 1993. The 1993 contract was in effect prior to the implementation of the PBRM and therefore was excluded in the calculation of savings until the contract was renewed or renegotiated. This contract has since been renegotiated and has been included in the PBRM, pursuant to TRA's Order in Docket No. 00-00844, effective with the April 2001 Plan Year.

Third, the Company is requesting to edit the Request for Proposal (RFP) Procedures set forth on 2<sup>nd</sup> Revised Sheet No. 45.3. Paragraph 2 of the Procedures states that *“the RFP shall be advertised for a minimum period of thirty (30) days through a systematic notification process”* and allows the thirty (30) day period to be shortened with the written consent of the TRA Staff. The proposed replacement language would read as follows: *“the RFP shall be advertised twice in a thirty (30) day period as part of a systematic notification process”*. The Company has a robust RFP notification process. The Company maintains a website exclusively for the notification of its gas supply RFPs to potential natural gas suppliers. Interested parties are directed to the website where they register to receive email notifications of upcoming RFPs and where they can view and download requests for proposals in all Atmos’s service areas. In its most recent issuances of Tennessee Requests for Proposal, automatic notifications were emailed to over 300 registered parties to the Atmos RFP website. Since beginning the RFP process, Atmos has interpreted its tariff to allow advertising in Platt’s Gas Daily twice within a thirty (30) day period, and TRA Staff have been advised and have approved of this approach. Publication in Platt’s for thirty (30) consecutive days would result in exorbitant advertising costs with little additional benefit.

Fourth, the Company proposes to edit the Reserve Margin language found on 2<sup>nd</sup> Revised Sheet No. 45.6, to better capture the accepted process used by the Company in determining the coldest day, and to delete outdated references to liquefied natural gas and propane storage facilities that no longer exist. The applicable sentences of the Reserve Margin section currently read: *“The projected peak day requirement shall be based upon a five year 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.”* The proposed replacement language would read as follows: *“The projected peak day requirement shall be based upon the coldest day on record*

*since 1970. All firm peak day capacity contracted for by the Company shall be considered as gas available to meet peak day demand."*

**Q. Should Atmos' request to revise the PBRM tariff be approved?**

A. Yes. In order to maintain the integrity of the PBRM and serve the program's purposes, including promotion of cost management, Atmos's tariff should be revised as discussed herein.

**Q. Does this conclude your testimony?**

A. Yes.

Rebecca M. Buchanan

Rebecca M. Buchanan

STATE OF TENNESSEE )

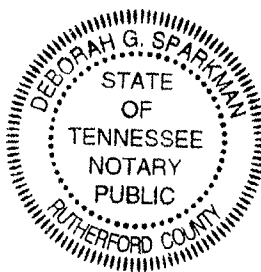
COUNTY OF WILLIAMSON )

SWORN to and subscribed before me  
this 13 day of August, 2013.

Deborah G. Sparkman

Notary Public

My Commission Expires: 8-22-2016





# EXHIBIT A

ATMOS ENERGY CORPORATION

T.R.A. No.1  
3rd Revised Sheet No. 45.1  
Cancelling 2nd Revised Sheet No.45.1PERFORMANCE BASED RATEMAKING MECHANISM RIDERApplicability

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

Overview of Structure

The Performance-Based Ratemaking Mechanism consists of two parts:

Gas Procurement Incentive Mechanism  
Capacity Management Incentive Mechanism

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

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

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

Gas Procurement Incentive MechanismCommodity 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).

**ATMOS ENERGY CORPORATION****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:

1. 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 alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. Under all circumstances, beneficial ownership of more than ten percent (10%) of voting securities or partnership interest of an entity shall be deemed to confer control for purposes of these guidelines of conduct.
3. Marketing, as used in this standard, means selling or brokering natural gas to any person or entity, including the Company, by a seller that is not a local distribution company.

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

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

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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-year 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.



**Review Process**

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

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

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

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

N

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

N

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

N

# EXHIBIT B

Piedmont Natural Gas Company, Inc.  
TRA Service Schedule No. 316

Fourth Revised Page 1 of 7

## **SERVICE SCHEDULE NO. 316**

### **Performance Incentive Plan**

#### **Applicability**

The Performance Incentive Plan (the Plan) replaces the annual reasonableness or prudence review of the Company's gas purchasing activities overseen by the Tennessee Regulatory Authority (Authority or TRA). The Plan does not preclude the Authority from conducting an independent investigation into or examination of any aspect of the Plan or the Company's conduct thereunder. The Plan is designed to provide incentives to the Company in a manner that will produce rewards for its customers and its stockholders and improvements in the Company's gas procurement and capacity management activities. Each plan year (Plan Year) will begin July 1st. The annual provisions and filings herein would apply to this annual period. 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 the Company to the Authority or (b) the Plan is modified, amended or terminated by the Authority on a prospective basis.

#### **Overview of Structure**

The Plan establishes a predefined benchmark index to which the Company's commodity cost of gas is compared. It also addresses the recovery of gas supply reservation fees and the treatment of off-system sales and wholesale interstate sale for resale transactions. The net incentive benefits or costs will be shared between the Company's customers and the Company on a 75%-customers / 25%- stockholders basis for the Plan Year commencing on July 1, 2006.

The Plan also is designed to encourage the Company to actively market off-peak unutilized transportation and storage capacity on pipelines in the secondary market. It also addresses the sharing of asset management fees paid by asset managers, and other forms of compensation received by the Company for the release and/or utilization of the Company's transportation and storage assets by third-parties. The Company shall notify the TRA Staff and the Consumer Advocate and Protection Division of the Office of the Attorney General (CAD) of all "other forms of compensation" prior to inclusion of such compensation in the Plan. The net incentive benefits or costs of such activities will be shared between the Company's customers and the Company utilizing a 75%-customers / 25%-stockholders formula commencing on July 1, 2006.

Every three years the Company's activities under the Plan will be reviewed comprehensively by an independent consultant. The first triennial review shall occur in the autumn of 2008. The scope of the review may include all transactions and activities related to the Performance Incentive Plan, including, but not limited to, natural gas procurement, capacity management, storage, hedging, reserve margins, and off-system sales.

The Company is subject to a cap on overall incentive gains or losses of \$1.6 million annually. In connection with the Performance Incentive Plan, the Company shall file with the Authority Staff,

EFFECTIVE: March 1, 2012

and supply a copy to the Consumer Advocate and Protection Division of the Tennessee Attorney General (CAD), and update each year, a Three Year Supply Plan. The Company will negotiate/obtain firm capacity, interruptible capacity and/or gas supply pursuant to such plan.

### Commodity Costs

Each month the Company will compare its *total city gate commodity and cost of gas*<sup>1</sup> 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:

$$I = F_f(P_0K_0 + P_1K_1 + P_cK_c + \dots P_aK_a) + F_oO + F_dD; \text{ where} \\ F_f + F_o + F_d = 1; \text{ and}$$

I = the monthly city gate commodity gas cost index.

F<sub>f</sub> = the fraction of gas supplies purchased in the first-of-the-month market which are transported to the city gate under the Company's FT, negotiated FT, and IT 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 (TGP) Rate Zone 0; subscript 1 denotes TGP Rate Zone 1; subscript C denotes Columbia Gulf Transmission (CGT) - mainline, and subscript a denotes new incremental firm services to which the Company may subscribe in the future.<sup>2</sup> The indices used for calculating Midwestern capacity shall be those produced by Natural Gas Intelligence for monthly purchases and Gas Daily for daily purchases. The commodity index prices will be adjusted to include the appropriate pipeline firm transportation (FT) and interruptible transportation (IT) commodity transportation charges and fuel retention to the city gate under the Company's FT, negotiated FT, and IT service agreements.<sup>3</sup>

<sup>1</sup> Gas purchases associated with service provided under Texas Eastern Transmission Company Rate Schedule SCT shall be excluded from the incentive mechanism. The Company 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, the Plan 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, the Company will exclude any commodity costs incurred downstream of the city gate to storage so that the Company's actual costs and the benchmark index are calculated on the same basis.

<sup>2</sup> To the extent that the Company 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, the Company shall modify the monthly commodity price index to reflect such discount.

<sup>3</sup> Capacity released for a month shall be excluded from the benchmark calculation for that month, excluding capacity released under an agreement where the Company maintains city gate delivery rights for the released capacity during such month.

$K$  = the fraction (relative to total maximum daily contract entitlement) of the Company's total firm, negotiated firm, and interruptible transportation capacity under contract in a geographic pricing region, where the subscripts are as above.<sup>4</sup>

$F_o$  = the fraction of gas supplies purchased in the first-of-the-month spot market which are delivered to the Company's system using transportation arrangements other than the Company's FT, negotiated FT, and IT contracts.

$O$  = the weighted average of Inside FERC Gas Market Report first-of-the-month price indices, plus applicable 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 the Company and delivered to the Company's system using transportation arrangements other than the Company's FT, negotiated FT, and IT 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 commodity index prices will be adjusted to include the appropriate transportation commodity charges and fuel retention to the city gate.

#### Gas Supply Reservation Fees

The Company 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, the Company 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 the Company's firm, negotiated firm, and interruptible transportation and capacity entitlements (the costs of which are recovered from the Company's ratepayers) shall be credited to the Plan 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 the Company in connection with the transaction, including transportation and gas costs, taxes, fuel, or other costs. For purposes of gas costs, the Company 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 the Company's

<sup>4</sup> Because the aggregate maximum daily contract quantities in the Company's FT contract portfolio vary by month over the course of the year, the weights will be recalculated each month to reflect actual contract demand quantities for such month. The contract weights, and potentially the price indices used, will also vary as the Company renegotiates existing or adds new FT contracts. As new contracts are negotiated, the Company shall modify the index to reflect actual contract demand quantities and the commodity price indices appropriate for the supply regions reached by such FT agreements. Citygate benchmark calculations shall be computed utilizing the Company's Design Day delivery requirements (deliveries required on a peak day).

actual costs and such index price is taken into account under the Plan. After deducting the total transaction costs from the sales proceeds, any remaining margin will be credited to commodity gas costs and shared with customers on a 75%- customer / 25%-stockholders basis.

#### **Capacity Management**

To the extent the Company 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 and/or asset management fees, or other forms of compensation associated with such activities, shall be shared by the Company and customers according to the following sharing formula: 75%-customers / 25%-stockholders. The Company shall notify the TRA Staff and the Consumer Advocate and Protection Division of the Office of the Attorney General (CAD) of all "other forms of compensation" prior to inclusion of such compensation in the Plan.

#### **Hedging Activities**

The Company may engage in hedging transactions<sup>5</sup> within the PGA/ACA mechanism. Costs related to hedging transactions may be recovered through the ACA account; provided, however, that such costs recovered through the ACA account shall not exceed one percent (1%) of total annual gas costs.<sup>6</sup> Costs related to hedging transactions recoverable through the ACA account shall be defined as all direct, transaction related costs arising from the Company's prudent efforts to stabilize or hedge its commodity gas costs including, without limitation, brokerage fees, and the costs of financial instruments.

All costs related to hedging transactions, in addition to all gains and losses from hedging transactions, shall be credited/debited to the ACA account in the respective month that each hedging transaction closes. Costs related to hedging transactions that are incurred prior to the month that the hedging transaction closes shall be temporarily recorded in a separate, non-interest bearing account for tracking purposes.

#### **Determination of Shared Saving**

Each month during the term of the Plan, the Company will compute any gains or losses in accordance with the Plan. If the Company earns a gain, a separate Incentive Plan Account (IPA) will be debited with such gain. If the Company incurs a loss, that same IPA will be credited with such loss. During a Plan Year, the Company will be limited to overall gains or losses totaling \$1.6 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 gains or losses will be recorded to income or expense, as appropriate. At its option, however, the Company may temporarily record any monthly gains in a non-regulatory deferred credit balance sheet account until results for the entire Plan Year are available.

<sup>5</sup> Hedging transactions, as used herein, shall include but not be limited to futures contracts, financial derivative products, storage swap arrangements, or other private agreements to hedge, manage or reduce gas costs.

<sup>6</sup> One percent (1%) of total annual gas costs, for the purposes of establishing a recovery cap, shall be computed from the most current audited and approved gas costs for the Company in a TRA docket as of the first day of the month, 12 months prior to the first day of the period under audit.

Gains or losses accruing to the Company under the Plan 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. The Company is subject to a cap on overall incentive gains or losses of \$1.6 million annually.

Each year, effective November 1, the rates for all customers, excluding 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. Subject to approval by the TRA, the Company may also propose to refund positive IPA balances on an intra-year basis by making direct bill credits to all customers (except transportation customers) where such direct bill credit would be beneficial to customers.

#### 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 each interim fiscal 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 the annual reports, the Incentive Plan Account shall be deemed in compliance with the provisions of this Service Schedule. The Authority Staff may expand the time for consideration of the annual reports by up to an additional sixty (60) days upon written notification to the Company or longer by mutual agreement or upon a showing of good cause.

#### Periodic Index Revisions

Because of changes in the natural gas marketplace, the price indices utilized by the Company, and the composition of the Company's purchased gas portfolio may change. The Company shall, within sixty (60) days of identifying a change to a significant component of the mechanism, provide notice of such change to the Authority. Unless the Authority provides written justification to the Company within sixty (60) days of such notice, the price indices shall be deemed approved as proposed by the Company.

#### Gas Supply Incentive Compensation Program

The Company has in place a Gas Supply Incentive Compensation Program (the Program) designed to provide incentive compensation to selected Gas Supply non-executive employees involved in the implementation of the Company's Incentive Plan and Secondary Marketing Programs 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 receive incentive compensation as recognition for their contribution to the customers and shareholders of the Company through lower gas costs and gains related thereto. Performance measures are established for the Program each year.

During the time this tariff is in effect, the Company will continue to have in place the Gas Supply Incentive Compensation Program, as detailed to the Authority, as it relates to the Company's Incentive Plan. The Company will advise the Authority in writing of any changes to the Program, and unless the Company is advised within 60 days, said changes will become effective. The Authority may expand the time for consideration of such changes upon written notification to the Company. No filing for prior approval is required for changes in the performance measures.

#### **Triennial Review**

A comprehensive review of the transactions and activities related to the Performance Incentive Plan shall be conducted by an independent consultant once every three years. The initial triennial review shall be conducted in the autumn of 2008 and subsequent triennial reviews shall be conducted every third year thereafter. The TRA Staff, the CAD, and the Company shall make an effort to maintain a list of no less than five (5) mutually agreeable independent consultants or consulting firms qualified to conduct the aforementioned review. Any dispute concerning whether an independent consultant shall be added to the list shall be resolved by the TRA Staff, after consultation with the Company and the CAD. For each review, the TRA Staff shall select three (3) prospective independent consultants from that list. Each such consultant shall possess the expertise necessary to conduct the review. The TRA Staff shall provide the list of prospective independent consultants to the Company and the CAD via e-mail. The Company and the CAD shall have the right, but not the obligation, to strike one (1) of the prospective independent consultants from the list by identifying the stricken consultant in writing to the TRA Staff within thirty (30) days from the date the list is e-mailed. The TRA Staff shall select the independent consultant from those remaining on the list after the Company's and the CAD's rights to strike have expired. The cost of the review shall be reasonable in relation to its scope. Any and all relationships between the independent consultant and the Company, the TRA Staff, and/or the CAD shall be disclosed, and the independent consultant shall have had no prior relationship with either the Company, the TRA Staff, or the CAD for at least the preceding five (5) years unless the Company, the TRA Staff and the CAD agree in writing to waive this requirement. The TRA Staff, the CAD and the Company may consult amongst themselves during the selection process; provided, however, that all such communications between the parties shall be disclosed to any party not involved in such communication so that each party may participate fully in the selection process.

The scope of the triennial reviews may include all transactions and activities related either directly or indirectly to the Performance Incentive Plan as conducted by the Company or its affiliates, including, but not limited to, the following areas of transactions and activities: (a) natural gas procurement; (b) capacity management; (c) storage; (d) hedging; (e) reserve margins; and (f) off-system sales. The scope of each triennial review shall include a review of each of the foregoing matters as well as such additional matters as may be reasonably identified by the

Company, the TRA Staff, or the CAD relative to the operation or results of the Performance Incentive Plan.

The Company, the TRA Staff, or the CAD may present documents and information to the independent consultant for the independent consultant's review and consideration. Copies of all such documents and information shall be presented simultaneously to the independent consultant and all other parties.

The independent consultant shall make findings of fact, as well as identify and describe areas of concern and improvement, if any, that in the consultant's opinion warrant further consideration; however, the independent consultant shall not propose changes to the structure of the Performance Incentive Plan itself. The independent consultant shall complete and issue a written report of its findings and conclusions by July 1 of the year immediately following the triennial review. The report deadline may be waived by the written consent of the TRA Staff, the Company, and the CAD.

The independent consultant shall not propose changes to the structure of the Performance Incentive Plan itself; however, the TRA Staff, the Company, or the CAD may use the report of the independent consultant as grounds for making recommendations or proposed changes to the Authority, and the TRA Staff, the Company, or the CAD may support or oppose such recommendations or proposed changes. Any proposed changes to the structure of the Performance Incentive Plan resulting from the initial triennial review or subsequent triennial reviews, whether adopted by agreement or pursuant to a ruling of the Authority, shall be implemented on a prospective basis only beginning with the incentive Plan Year immediately following such agreement or ruling.

The cost of the triennial reviews shall be paid initially by the Company and recovered through the ACA account. The TRA Staff may continue its annual audits of the IPA and the ACA account, and the triennial reviews shall not in any way limit the scope of such annual audits. The CAD retains all of its statutory rights, and the triennial reviews shall not in any way affect such rights.

# EXHIBIT C

CHATTANOOGA GAS COMPANY  
GAS TARIFF  
TRA NO. 1

TENTH REVISED SHEET NO 48

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.