

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

**IN RE:** )  
 )  
**PETITION OF ATMOS ENERGY** )  
**CORPORATION TO REVISE** )  
**PERFORMANCE BASED** ) **TRA Docket No. 13-00111**  
**RATEMAKING MECHANISM RIDER** )  
**IN TARIFF** )

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**REBUTTAL 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. Did you prepare prefiled Direct Testimony in this Docket No. 13-00111?**

A. Yes.

**Q. What is the scope of your Rebuttal Testimony?**

A. My Rebuttal Testimony will address the Affidavit of TRA Party Staff, the Pre-filed Direct Testimony of Dr. Christopher Klein, witness for the Consumer Advocate and Protection Division ("CAPD"), Office of Attorney General, the TRA Party Staff responses to Discovery Requests of Atmos, and the TRA Party Staff responses to Discovery Requests of CAPD.

**Q. Have you reviewed the Affidavit of Ms. Pat Murphy and what are your general impressions?**

A. Yes I have. Ms. Murphy's Affidavit consists of 32 paragraphs. The affidavit covers a wide range of issues. Many of the paragraphs discuss incentive plans and asset management in a general sense and are beyond the scope of this docket. Several paragraphs discuss the lump sum fee received by the Company from the asset manager and sharing between the customers and Company of that fee. The lump sum fee and sharing between customers and Company are not at issue in this proceeding. Other paragraphs, particularly 17 and 19, contain dialog that can be read to cast unspecific and unfair suspicion over the Company's gas procurement transactions. I will confine my rebuttal comments to the topics of Atmos' application in this case, particularly the resetting of the deadband.

**Q. Please discuss paragraphs 14 & 15 of Ms. Murphy's Affidavit in which she states that her expectation was that any settlement reached in Docket No. 07-00225 would settle the issues in that case.**

Q. Docket 07-00225 was convened as a "Phase II" proceeding by the Authority based on the recommendations related to asset management which were made by the TRA's Staff audit of the ACA filing of Atmos in Docket No. 05-00253 as well as in response to issues raised by the Consumer Advocate and the Atmos Intervention Group in Docket No. 05-00258. This docket was an action brought against the Company. After a similar docket concerning Chattanooga Gas Company was resolved by order of the Authority, the Consumer Advocate offered to settle all issues that it had raised in the 07-00225 docket through the adoption of a proposal for triennial review. After negotiation concerning the specific terms of that proposal, Atmos and the Consumer Advocate reached a settlement, which was approved by the Authority. Docket 07-00225 was settled by the parties with the Company agreeing to a comprehensive review of the transactions and activities related to Asset Management being reviewed by an independent consultant. Ms. Murphy's affidavit states that her expectation was that the Company's request in this proceeding to eliminate the resetting of the deadband provision would have or should have also been settled in Docket 07-00225, although subsequent discovery request responses indicate that Party Staff does not maintain that the relief requested in this docket is in any way precluded by the 07-

00225 docket or the by the settlement of that matter. As Party Staff confirmed in response to Atmos data request 21, the deadband was not identified as an issue in Docket No. 07-00225, and certainly is not covered by the terms of the settlement. Similarly the deadband was not included in Attachments A or C to Ms. Murphy's Affidavit.

**Q. What is the history of the deadband in the Company's commodity component of the PBRM?**

A. When the Incentive Plan was first filed (on an experimental basis in 1997) and approved on a permanent basis in 1999, there was an upper and lower deadband around the commodity component of the PBRM. The upper end of the deadband on the gas procurement was set at 102%. Costs incurred by the Company that exceeded the market-based benchmark costs by up to 2% were fully paid for by the customers. Any actual costs greater than 102% of the benchmark costs were shared 50/50 between customer and Company. The low end of the deadband initially was set at 98%, meaning the first 2% of any savings below the benchmark were totally retained by the customers. Actual costs that were less than 98% of benchmark created savings that were shared 50/50 between the customers and Company. Every third year the lower end of the deadband readjusts to 1% less than the most recently audited actual annual commodity costs as a percent of annual benchmark commodity costs. There is no adjustment to the upper end of the deadband. Over time, Atmos has consistently provided savings to the customers by achieving costs that are lower than the commodity benchmark. The first resetting of the deadband in 1999 changed the lower end of the deadband to 97.7%. Three years later the Company's actual costs were still about the same, and thus in 2002 the lower end of the deadband remained at 97.7%. The second resetting in 2005 changed the lower band to 97.5%, the third resetting in 2008 changed the lower band to 98.1%, and most recently, the lower end of the deadband was reset to 97.4% in 2011. All of these resets have stayed relatively close to the original 98% low end of the deadband. During these years, the customers fully retained the first 2% – 3% of savings.

The PBRM incentivizes the Company to seek innovative ways to achieve cost reductions for the consumers. Significant cost reductions came to fruition in the 2011/2012 PBR year. Through new city gate delivered services, Atmos saved the customers several million dollars annually in avoided pipeline demand charges in the 2011/2012 PBR year. The negotiated city gate services were part of a three year Gas Supply and Asset Management contract that commenced in April 2011, so the savings were also realized in 2012/2013 and 2013/2014. In 2011/2012 Atmos' actual commodity costs were 91.1% of the market-based benchmark cost, thereby beating the benchmark by nearly 10%, which is a substantially greater cost savings than in prior years.<sup>1</sup> In 2012/2013 Atmos' commodity costs were 90.9% of the market-based benchmark cost, again beating the benchmark by nearly 10% below market based costs. During this timeframe, the low end of the deadband was set at 97.4%, meaning that customers fully retained the first 2.6% of savings before sharing additional savings 50/50 with Atmos. For the first time in more than ten years since the inception of the PBRM, Atmos was able to realize the approved shared savings cap of \$1.25 million. Clearly the incentives of the program have been successful, resulting in significant savings to both the customers and Atmos (see Table 1 – Atmos Total Annual Savings 2002 – 2013).

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<sup>1</sup>Also, as part of the three year Gas Supply and Asset Management contract, Atmos negotiated additional savings, over and above these commodity savings, by securing a considerable annual upfront payment from the Asset Manager. Since the savings from the annual upfront payment are not figured into the resetting the benchmark, this is not part of the discussion in the current docket. It should be noted that the annual upfront payments are shared between customer and Company, where the customers retain 90% of the payments.)

**TABLE 1 - ATMOS TOTAL ANNUAL SAVINGS 2002 - 2013**

Year	ATMOS ENERGY CORPORATION Total Annual Gas Cost Savings - Audited			lower end deadband
	Total Savings	Customer	Atmos	
02/03	\$ 2,423,884	\$ 2,178,086	\$ 245,799	97.7%
03/04	\$ 1,497,795	\$ 1,482,733	\$ 15,062	97.7%
04/05	\$ 748,557	\$ 706,470	\$ 42,087	97.7%
05/06	\$ 710,159	\$ 672,457	\$ 37,702	97.5%
06/07	\$ 1,294,696	\$ 1,261,906	\$ 32,790	97.5%
07/08	\$ 1,183,630	\$ 1,150,891	\$ 32,739	97.5%
08/09	\$ 2,134,009	\$ 2,039,651	\$ 94,358	98.1%
09/10	\$ 1,940,316	\$ 1,648,606	\$ 291,710	98.1%
10/11	\$ 1,913,152	\$ 1,621,014	\$ 292,138	98.1%
11/12	\$ 6,080,495	\$ 4,830,495	\$ 1,250,000	97.4%
12/13	\$ 5,668,463	\$ 4,418,463	\$ 1,250,000	97.4%
	<b>\$ 25,595,155</b>	<b>\$ 22,010,771</b>	<b>\$ 3,584,384</b>	

Note: Total Annual Gas Cost Savings includes Commodity Cost savings, within & outside the deadband, Capacity Release savings, & AMA savings.

The PBRM tariff requires that a new low end of the deadband be calculated based on the actual costs in 2012/2013 as a percent of benchmark, less 1%. Since Atmos achieved costs of 90.9% of benchmark in 2012/2013, the new low end of the deadband will be reset at 89.9%. If the resetting of the deadband is not eliminated, the reset low end of the deadband will result in the customers retaining the first 10.1% of any savings before the Company has any opportunity to share in the savings. We estimate that with the reset the Company's share of savings will decrease from the cap of \$1.25 million down to approximately \$ .5 million annually. Having to beat market prices by more than 10% is unprecedented and as explained in my Pre-filed Direct Testimony, will serve as an economic disincentive to the Company. It is common sense, good business practice and sound regulatory policy that in order to be effective, goals must be realistic and attainable.

**Q. What is causing this unprecedented shift in the lower end of the deadband?**

- A. Simply put, it is a result of the Company's strategy to create opportunities that maximize savings for customers and allow the Company to share in those savings. These substantial savings are the results of Atmos directing greater resources toward researching regional market changes, analyzing usage statistics and structuring contracts so that the Company can be in position to avail itself of city gate delivered services which avoid upstream capacity costs. When Atmos is successful at negotiating city gate services, the avoided upstream capacity costs are included in the PBR commodity benchmark, as prescribed by the tariff.

The avoided cost component attributable to city gate services has been included in the Company's PBRM tariff since its inception, nearly 15 years ago. Even so, the potential for additional savings via new city gate delivered services was not contemplated by the parties, and the impact that increased savings would have on the resetting of the deadband could not have been foreseen. We could not have predicted the exceptional savings Atmos has obtained for customers as a direct result of the PBRM which incentivized Atmos' innovative procurement strategy.

**Q. What prompted Atmos to seek additional city gate delivered services in Tennessee?**

- A. Due to market changes in the natural gas industry, opportunities to reduce cost through pure commodity savings were diminishing. As a result, the Company began to seek other cost saving opportunities. In line with the incentives approved by the TRA and included in Atmos' PBRM tariff, Atmos researched and began to pursue innovative ways to reduce pipeline demand charges for the customers through city gate delivered services, similar to NORA. The Company directed its efforts to renegotiating contracts and creating opportunities for savings through city gate delivered services.

**Q. Ms. Murphy recommends that Atmos wait to petition the Authority for desired tariff changes until after the independent consultants report is filed with the Authority. Do you agree with this recommendation?**

A. No for several reasons. First, the Staff and the Authority have allowed modifications to the Incentive Plans of all the regulated gas companies in the state, as set forth in Ms. Murphy's response to Company's data request No. 18, and in particular, Ms. Murphy's response to Company's data request No. 14 which addresses the elimination altogether of the deadband for one of the regulated utilities. Over the course of the gas utilities ACA filings over the years, the Staff has made numerous recommendations relative to the PBRM. Atmos' current petition should be viewed similarly and the issues that it raises should not be delayed pending an independent consultant's report. To clarify, Atmos' is not seeking to eliminate the deadband, only the *resetting* of the deadband. The Company's request is to continue with the current band of 97.4% and 102%. Secondly, in paragraph 20 of Ms. Murphy's affidavit, she states that the scope of the review established in the settlement for Atmos is identical to the scopes outlined in Piedmont Natural Gas' and Chattanooga Gas' review. The Review Procedures and Process for both Piedmont and Chattanooga provide that the independent consultant is not to make recommendations to the structure of the PBRM. The resetting of the deadband is part of the structure of the PBRM, and thus it would not fall within the scope of the consultants review.

**Q. Have you had an opportunity to look at the independent consultant's review of the other utilities?**

A. Yes. There have been two reviews of Piedmont Natural Gas' (PNG) Incentive Plan. The most recent review was filed with the TRA February 19, 2013. A review of Chattanooga Gas Company's plan has not yet been filed with the TRA. PNG's review was performed by Exeter Associates Inc. The findings by Exeter Associates, Inc. in the review of PNG's most recent audit are relevant to Atmos' request in this proceeding. Exeter recommends reducing pipeline demand costs by decreasing reliance on year round transportation and increasing reliance on winter season arrangements. This is exactly what Atmos has done by utilizing city gate delivered services as an alternative to holding pipeline capacity. Currently, Atmos appears to be the only utility achieving significant demand savings through



city gate delivered services. It is reasonable to believe that this may be due to the fact that only Atmos' tariff specifically provides incentives for avoided cost via city gate delivered services. If other utilities were to have a similar provision in their tariff, they too may be directing resources toward finding innovative ways to reduce sizable demand costs. See Table 2 that follows, which compares the purchase costs and savings under the PBRM of Atmos and Piedmont for the past several years.

**TABLE 2 - COMPARISON OF PURCHASES AND SAVINGS**

Plan Year	ATMOS ENERGY CORPORATION				
	Actual Purchases	Percent of Benchmark	PBRM Savings Generated		
			Total	Customers	Company
2010 - 2011	\$ 61,287,238	98.20%	\$ 1,913,152	\$ 1,621,014	\$ 292,138
2011 - 2012	\$ 46,909,938	91.10%	\$ 6,080,495	\$ 4,830,495	\$ 1,250,000
2012 - 2013	\$ 41,495,769	90.90%	\$ 5,668,463	\$ 4,418,463	\$ 1,250,000
3 Year Total	\$ 149,692,945		\$13,662,109	\$ 10,869,971	\$ 2,792,138
Plan Year	PIEDMONT NATURAL GAS COMPANY				
	Actual Purchases	Percent of Benchmark	PBRM Savings Generated		
			Total	Customers	Company
2010 - 2011	\$ 82,851,018	98.66%	\$ 2,924,191	\$ 2,193,143	\$ 731,048
2011 - 2012	\$ 46,750,480	97.27%	\$ 2,995,625	\$ 2,246,719	\$ 748,906
2012 - 2013	??		??	??	??
	\$ 129,601,498		\$ 5,919,816	\$ 4,439,862	\$ 1,479,954

Note: PNG data for 2012-2013 was not available to Company at time of filing this Rebuttal.

**Q. In Ms. Murphy's Affidavit paragraph 24, she states that if the lower end of the deadband remains at the current level or is removed permanently there is a very good possibility that Atmos will be guaranteed an additional \$1.25 million annually in savings for an undetermined number of years going forward with no additional effort on its part. Please explain why you disagree with this statement.**

A. First, the Company will not be guaranteed *an additional* \$1.25 million in annual savings. It may just be a matter of semantics, but Atmos' \$1.25 million annual cap is the only amount of savings that the Company has an opportunity to earn.



There is no opportunity for an “*additional \$1.25 million*” annually. Second, Ms. Murphy is incorrect to suggest that savings would continue for an undetermined number of years. The city gate delivered services are currently provided within the terms of one year and two year contracts. When these expire, the savings resulting from those contracts will end. Subsequent to the expiration, Atmos will have to renegotiate new contracts. There are factors outside the Company’s control that could affect the availability and cost of city gate delivered services, and it certainly is not a “given” that the same level of savings will be achieved in the future. We are operating in a market where others are seeking similar services, and in some instances competing for the same service, and there is some financial risk that the services will come at a premium. Contrary to Ms. Murphy’s Testimony, obtaining these services requires ongoing effort by the Company. They take more Gas Supply Department activity to monitor the market on a regular basis and implement the program. It would be less risky and take fewer resources for Atmos to subscribe to upstream pipeline capacity. At bottom line, it would cost more for Atmos and its customers. Savings from city gate delivered services are not random and are not permanent. They are dependent upon Atmos continually evaluating the market and capacity and renegotiating contracts in order to achieve the benefits from delivered services versus pipeline capacity. Atmos incurs this risk and the additional effort because it is incentivized to do so by the terms of the PBRM. The result is a net savings for Tennessee customers, exactly the goal of performance based ratemaking.

**Q. When is the first triennial review for Atmos scheduled to begin?**

- A. The process will begin with the issuance of an RFP to select an independent consultant in the fall of 2014. The consultant’s report will be due July 1, 2015. Recommendations are to be prospective, so the first PBR period that could utilize the consultant’s recommendations would begin in April 2016.

**Q. What is the scope of the independent consultant’s triennial review?**

A. According to the terms of the Atmos tariff, the scope of the triennial review is to encompass the transactions and activities related to asset management and compliance with the tariff. It will not address the structure of the PBRM.

**Q. What are the consequences of the TRA waiting until after the consultant's review to address the Company's request relative to the resetting the deadband?**

A. If the request by the Company is put off for several years waiting for the consultant's report to be presented and acted upon by the TRA, and the deadband is thereby allowed to reset to 89.9% on April 1, 2014, several things will happen. First, the PBR incentives for the Company effectively will be removed during the interim years, 2014, 2015, 2016. This will result in uncertainty as the Company makes decisions on how it conducts its business during the interim period (i.e., city gate delivered services versus pipeline capacity). The Company will lose financial incentive to continue to invest in finding new ways to save gas costs. City gate delivered services do carry financial risk for the Company. It is a risk Atmos is willing to accept in return for the incentive benefits provided by the PBRM. A regulated gas company should not be expected to expose itself to these downside risks without an offsetting financial incentive. That is the fundamental premise of performance based ratemaking. Although it would be less risky for Atmos to subscribe to upstream pipeline capacity than to utilize city gate delivered services, the net effect would be an increase in costs to customers for the duration of these contracts, which typically require a minimum 5 year to 10 year commitment.

**Q. Have you also reviewed the Pre-filed Direct Testimony of Dr. Christopher C Klein and his recommendations?**

A. Yes.

**Q. Does Dr. Klein address under what circumstances the reset of the deadband is reasonable or unreasonable.**

A. Yes. Dr. Klein states that if the Company has adopted a new gas procurement strategy that will permanently reduce its commodity costs to substantially below the benchmark, then resetting the deadband will maintain the incentive for Atmos to seek continued reductions in its commodity costs. On the other hand, Dr. Klein states that if the recent decline in Atmos' commodity cost is due to random events outside of Atmos' control, or to unique circumstances that cannot be expected to recur, then the reset of the deadband may deny Atmos any share of savings in commodity cost for the next three year period and effectively remove Atmos' incentive to seek reduction in its commodity costs.

**Q. Do you agree with Dr. Klein's reasoning?**

A. No, I do not think that a resetting of the deadband is reasonable under any circumstance. If the Company can implement a strategy that permanently or on a long term basis reduces costs to consumers, i.e., reduced reservation costs which are typically contracted for a period of years, it is unfair and creates a disincentive to not allow the Company to share in those reduced or avoided costs for as long as the costs are avoided. This is particularly true when the Company has made a significant commitment to its Gas Supply activities for the purpose of implementing such strategies. In fact, such an approach would actually create an economic disincentive for the Company to reduce its costs which is contrary to the very purpose of establishing a benchmark. That said, Atmos' current circumstances resulting in reduced or avoided cost are, in fact, due to unique circumstances that cannot be guaranteed to recur year after year. As discussed earlier in my Rebuttal Testimony, the Company's ability to obtain city gate delivered services at a discounted cost is by no means guaranteed, and it is not without on-going effort on the Company's part. This is exactly the circumstance described in Dr. Klein's Testimony where he states that a resetting of the deadband would remove Atmos' incentive to seek reductions in its commodity costs.

**Q. What is the Company's opinion on Dr. Klein's recommendation to suspend the readjustment of the deadband for the next three year period and maintain the lower end of the deadband at its current level until 2017?**

A. Dr. Klein's recommendation would preserve the Company's incentive for the next three year period, so in this respect his position is favored over the position taken by Party Staff. However, as discussed earlier in my Rebuttal Testimony, the years of uncertainty around the resetting of the deadband could potentially impact the Company's longer term procurement decisions.

**Q. What is Dr. Klein's recommendation relative to the removal of the Natural Gas Intelligence (NGI) Index from the Gas Procurement Incentive Mechanism and the elimination of the resetting of the deadband?**

A. Dr. Klein recommends approval of the Company's request to eliminate the Natural Gas Intelligence (NGI) Index from the Gas Procurement Incentive Mechanism. With respect to the Company's request to eliminate the provision that resets the deadband every three years, Dr. Klein recommends maintaining the lower end of the deadband at its current level of 97.4% until April 1, 2017 and revisiting the appropriateness of the "reset" after the consultant's report in Docket 07-00225 is completed.

**Q. Did the Company propose other changes to its PBRM tariff?**

A. Yes. The Company also proposed to delete an outdated reference to the Nora Supply Contract of 1993. In addition, the Company requested to edit the Request For Proposal (RFP) procedures to allow for advertisement twice in a 30 day period as opposed to a minimum period of 30 days. Further the Company proposed to modify the Reserve Margin language in the tariff (the process to determine the coldest day) to make it consistent with the Company's current practice, which is submitted annually to the Authority, and to delete any reference to propane air and liquefied natural gas facilities.

**Q. In summary, what is the Company requesting of the Authority in this proceeding?**

A. The Company is requesting that the Authority approve its request to eliminate the resetting of the deadband relative to its incentive plan, along with the other modifications noted herein. We ask the Authority to recognize that a PBRM with realistic goals and appropriate incentives has proven benefits, as demonstrated by the cost savings Atmos has brought to the customers through innovative transactions and activities that avoid expensive, long term interstate pipeline charges. The Company supports an independent review of its transactions including city gate deliveries, but believes the structure of the plan is a matter for the Authority.

As stated in my Direct Testimony, the reset feature of the deadband has an undesirable treadmill effect; as the Company works hard and ultimately beats the market benchmark, the lower end of the deadband is reduced. 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. This deadband reset feature thus ultimately results in the GPIM being a disincentive to further savings. This is contrary to its purposes.

**Q. Does this conclude your Rebuttal Testimony?**

A. Yes.

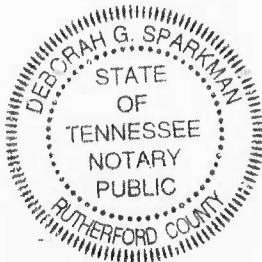
Rebecca M. Buchanan  
Rebecca M. Buchanan

STATE OF TENNESSEE     )  
                                          )  
COUNTY OF WILLIAMSON    )

SWORN to and subscribed before me  
this 30 day of January, 2014.

Deborah G. Sparkman  
Notary Public

My Commission Expires: 8/22/16



**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing has been served, via the method(s) indicated below, on the following counsel of record, this the 31st day of January, 2014.

<input type="checkbox"/> Hand	Joe Shirley, Esq.
<input type="checkbox"/> Mail	Office of Attorney General
<input type="checkbox"/> Fax	Consumer Advocate and Protection Division
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<input type="checkbox"/> Hand	Shiva K. Bozarth, Esq.
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