

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

ATMOS ENERGY CORPORATION)	
GENERAL RATE)	
CASE AND PETITION TO ADOPT)	
ANNUAL REVIEW MECHANISM)	DOCKET NO. 14-_____
AND ARM TARIFF)	

**PRE-FILED TESTIMONY OF PATRICIA J. CHILDERS
ON BEHALF OF ATMOS ENERGY CORPORATION**

I. INTRODUCTION

- 1
- 2 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**
- 3 A. My name is Patricia J. Childers. I am Vice President - Rates & Regulatory
- 4 Affairs for the Kentucky/Mid-States Division of Atmos Energy Corporation
- 5 ("Atmos Energy" or "Company"). My business address is 810 Crescent Centre
- 6 Drive, Suite 600, Franklin, Tennessee 37067-6226.
- 7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**
- 8 A. My testimony will outline the principal factors requiring Atmos Energy to request
- 9 an increase in rates and will also outline the Company's request (as part of this
- 10 filing) to implement an alternative regulatory method allowed by Tennessee Code
- 11 Annotated, Section 65-5-103(d)(6), which authorizes a utility to "file for an
- 12 annual review of its rates." I also will introduce the other witnesses, who will
- 13 provide support for the Company's request.
- 14 **Q. ARE YOU SPONSORING ANY SCHEDULES TO YOUR TESTIMONY?**

1 A. Yes. I am sponsoring Exhibit PJC-1 which includes the Company's Proof of
2 Revenues and Calculation of Rates, as well as the Company's proposed tariffs.
3 This exhibit is also Schedule 11 in our Revenue Requirement Model.
4

5 **II. WITNESS BACKGROUND**

6 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND**
7 **PROFESSIONAL BACKGROUND, AND CURRENT**
8 **RESPONSIBILITIES.**

9 A. I have a Bachelor of Science degree from Middle Tennessee State University. I
10 have worked for Atmos Energy and its predecessor since 1979. In 2001, I
11 assumed my current position. I am responsible for the oversight of regulatory
12 affairs for the Kentucky/Mid-States Division in the States of Tennessee and
13 Virginia.

14 **Q. HAVE YOU EVER TESTIFIED BEFORE THE TENNESSEE**
15 **REGULATORY AUTHORITY ("TRA")?**

16 A. Yes. Throughout my years with the Company I have provided testimony before
17 the Tennessee Regulatory Authority in numerous dockets. I have also testified
18 before the Georgia Public Service Commission, the Illinois Commerce
19 Commission, the Missouri Public Service Commission and the Virginia State
20 Corporation Commission.
21

1 **III. TESTIMONY**

2 **Q. CAN YOU PROVIDE THE TRA WITH A GENERAL DESCRIPTION**
3 **AND BACKGROUND OF ATMOS ENERGY'S OPERATION IN**
4 **TENNESSEE?**

5 A. Yes. Atmos Energy's Kentucky/Mid-States Division serves customers in
6 Tennessee, Kentucky and Virginia. This Division provides natural gas service to
7 approximately 330,000 customers across those three states. Atmos Energy serves
8 approximately 132,000 residential, commercial, and industrial customers in
9 Tennessee. The Company has a Tennessee-based work force of slightly less than
10 160 employees including 32 employees in the Kentucky/Mid-States Division
11 office in Cool Springs. Our utility plant in Tennessee includes approximately 67
12 miles of transmission pipe, 3,340 miles of distribution mains and 143,000 service
13 lines.

14 **Q. WHEN WAS THE LAST GENERAL RATE CASE FOR ATMOS**
15 **ENERGY?**

16 A. The Company's current rates were established by the TRA in Docket No. 12-
17 00064. That case was filed on June 22, 2012. The TRA ultimately approved a
18 settlement in the case, and new rates became effective for bills rendered on and
19 after December 1, 2012.

20 **Q. WHAT DOES ATMOS ENERGY SEEK IN THIS APPLICATION?**

21 A. First, through a general rate case Atmos Energy seeks approval of an increase in
22 revenues of approximately \$5.89 million along with approval of the tariffs
23 incorporating the new rates and charges. Second, Atmos Energy seeks to opt into

1 the statutorily authorized annual rate review mechanism as established by
2 Tennessee Code Annotated § 65-5-103(d)(6) and seeks approval of its proposed
3 Annual Review Mechanism tariff.

4 **Q. PLEASE PROVIDE ADDITIONAL DETAIL RELATED TO THE**
5 **GENERAL RATE CASE.**

6 A. Although Atmos Energy operates very efficiently, it is not achieving a fair return
7 on its investments with the rates currently in effect. Under the proposed rates the
8 increase to the bill of an average residential customer at current gas prices would
9 be approximately \$2.09 per month. Our calculated return on equity, as of June
10 30, 2014, was 9.02%. The allowed return on equity granted in Docket No. 12-
11 00064 was 10.1% with an overall return of 8.28%.

12 **Q. WHY IS ATMOS ENERGY REQUESTING A RATE INCREASE AT THIS**
13 **TIME?**

14 A. We make every effort to provide services as efficiently as possible and are proud
15 of our reputation as one of the lowest cost providers of natural gas in the United
16 States. The requested increase is due to increased operating and maintenance
17 expenses, projected capital expenditures to reinforce existing infrastructure to
18 comply with federal safety regulations and a requested increase in return.
19 Consequently, we are seeking timely and adequate rate relief in order to maintain
20 the current high-quality safe and reliable service our customers expect. These
21 areas are discussed in detail by other Company witnesses.

22 **Q. WHAT RATE RELIEF ARE YOU REQUESTING IN THIS**
23 **APPLICATION?**

1 A. We are asking the Authority to approve new rate schedules that would increase
2 our revenues to provide a projected rate of return of 8.58% on a projected total
3 rate base of \$254,734,497

4 **Q. WHAT IS THE RATE OF RETURN ON COMMON EQUITY**
5 **REQUESTED IN THIS APPLICATION?**

6 A. We have requested a rate of return on projected common equity of 10.7%.

7 **Q. HOW DO YOU PROPOSE THAT NEW RATES RECOVER THE**
8 **DISTRIBUTION REVENUE INCREASE?**

9 A. The Company is proposing to distribute the requested increase among the rate
10 classes proportionate to the current margin of each class and consistent with the
11 distribution methodology in Docket No. 12-00064. The distribution of the
12 increase is shown in both PJC-1 and Schedule 11 of the Revenue Requirement
13 Model.

14 Virtually all of a natural gas local distribution company's cost of service
15 (other than the cost of gas, which is not recovered in base distribution rates) is
16 fixed, as opposed to variable. By fixed, I mean that the costs do not increase or
17 decrease as the volume of natural gas delivered to our customers increases or
18 decreases. At the same time, under our exiting rate structure, the majority of
19 distribution rate revenues are recovered through volumetric rate components.
20 Consequently, the Company is proposing to increase the customer charges of the
21 various rate schedules as proposed in this case to improve the likelihood of
22 revenue recovery. The proposed monthly customer charges compare favorably

1 with the charges approved by the TRA in recent filings by the other regulated
2 natural gas utilities.

3 **Q. BRIEFLY DESCRIBE THE COMPONENTS THE COMPANY UTILIZED**
4 **TO ARRIVE AT ITS CALCULATION OF FORWARD LOOKING TEST**
5 **YEAR BILLING DETERMINANTS.**

6 A. The Company first began with Historic Base period sales and transportation
7 volumes of 23,895,057 Mcf, 1,615,993 bills and 16,126 billing demand units.
8 The Company then adjusted for normal weather, annualized customer usage and
9 customer growth to arrive at Forward Looking Test Year billing determinants of
10 24,942,622 Mcf, 1,663,888 bills and 16,126 billing demand units.

11 **Q. PLEASE DESCRIBE HOW THE COMPANY CALCULATED ITS**
12 **WEATHER NORMALIZATION?**

13 A. Consistent with Docket No. 12-00064, the Company used weather data from the
14 Bristol, Nashville, Knoxville (TN) and Paducah (KY) NOAA weather stations to
15 normalize actual usage for all customers served under Rate Schedule (210), (211),
16 (220), (221) and (225), as well as the commercial sales customers under Rate
17 Schedule (230). From this data a 30-year daily normal ending June 30, 2014 was
18 calculated. Monthly normal cycle degree days were calculated from the 16th of
19 the previous month to the 15th of the current month to approximate cycle-billing.
20 Weather normalization months were the periods from October through April to
21 also be consistent with Docket No. 12-00064.

1 **Q. HOW DID THE COMPANY ADJUST THE FORWARD LOOKING TEST**
2 **YEAR BILLING DETERMINANTS FOR EXISTING CUSTOMER**
3 **USAGE?**

4 A. Consistent with Docket No. 12-00064, the Company adjusted industrial customer
5 usage by individually analyzing the sales volumes of the Company's largest
6 customers. These adjustments, made by rate schedule, are based on whether the
7 customer reduced or increased consumption or left the system during the Historic
8 Base Period. Adjustments were also made based on information provided by
9 these customers concerning their projected usage during the Forward Looking
10 Test Year.

11 **Q. HOW WERE SALES VOLUMES FOR ADDED CUSTOMERS**
12 **COMPUTED?**

13 A. The customer growth adjustments reflect the projected net number of residential,
14 commercial and small industrial customers that will be added to the system during
15 this Forward Looking Test Year. This adjustment is based on the two-year
16 period, ending June 30, 2014. The customer change is then multiplied by the
17 annualized normal usage per customer to arrive at the adjustment to volumes.

18 **Q. HOW DID THE COMPANY COMPUTE OTHER REVENUES?**

19 A. Other revenues primarily consist of forfeited discounts and miscellaneous service
20 charges. Consistent with Docket No. 12-00064, the Company took a historical
21 average of these amounts over the last two years. This produced \$1,136,588 in
22 Other Revenues as shown in Schedule 11 of the Revenue Requirement Model.

1 **Q. PLEASE EXPLAIN THE SECOND PART OF THE COMPANY'S**
2 **REQUEST IN THIS APPLICATION.**

3 A. Atmos Energy seeks to opt-into the annual review mechanism established by
4 Tennessee Code Annotated § 65-5-103(d)(6). This statutory provision, adopted in
5 2013, allows a public utility to opt for annual review of its rates. To implement
6 and establish procedures to govern the statutory review mechanism for Atmos
7 Energy, the Company is proposing a new tariff, a copy of which is attached to the
8 testimony of Company Witness Gregory Waller as Exhibit GKW-2. Atmos
9 Energy is requesting approval to make its first annual review filing in September
10 2015, followed by an adjustment of rates pursuant to the annual review
11 mechanism effective January 1, 2016, and each January 1, thereafter. As
12 authorized under subsection (d)(6), Atmos Energy seeks to have its rates reviewed
13 annually based upon the methodology adopted in the general rate case portion of
14 this case, with the Company's rates to be adjusted annually so as to enable Atmos
15 Energy to earn the authorized return on equity that is established in the general
16 rate case portion of this case.

17 **Q. PLEASE OUTLINE THE TESTIMONY OF THE OTHER ATMOS**
18 **ENERGY WITNESSES IN THIS CASE.**

19 A. In addition to my testimony, Atmos Energy will present the direct testimony and
20 exhibits of four other witnesses.

21 Gregory K. Waller, Manager of Rates & Regulatory Affairs for Atmos
22 Energy Corporation is presenting testimony concerning the budgeting process
23 used by Atmos Energy's utility divisions, the Shared Services Unit (SSU)

1 budgeting process, control and monitoring of variances, and calculation of the
2 Company's projected revenue deficiency for the attrition year that ends May 31,
3 2016. He also provides details concerning the mechanics of the Company's
4 proposed annual rate review mechanism in support of the proposed ARM tariff.

5 Jason L. Schneider, Director of Accounting Services for Atmos Energy
6 Corporation, is filing testimony regarding the historic books and records of the
7 Company and the integrity of the financial information in this case. He also
8 sponsors the Company's Cost Allocation Manual (CAM), which describes the
9 methodology for cost allocations.

10 Dr. James Vander Weide testifies regarding Atmos Energy's cost of equity
11 capital and recommends a rate of return on equity that is appropriate to be used in
12 setting rates for Atmos Energy in this proceeding.

13 Joe T. Christian, Director of Rates and Regulatory Affairs for Atmos
14 Energy, is testifying about the Company's Lead/Lag study. He also supports data
15 in Schedule 9 of the Company's Revenue Requirement model regarding the
16 Company's capital structure and cost of debt for use in the proceeding (attached
17 as part of Exhibit GKW-1).

18 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

19 A. Yes. It is my opinion that the rates requested in this filing are just, reasonable,
20 and in the public interest. I respectfully request the Authority to provide prompt
21 and adequate rate relief and also allow the Company to opt-into the annual rate
22 review mechanism provided by Tennessee Code by approving the Company's
23 Annual Review Mechanism tariff.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes.**

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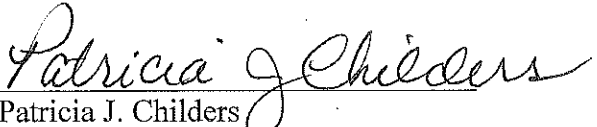
Docket No. 14-XXXXX

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF WILLIAMSON)

I, Patricia J. Childers, being first duly sworn, state that I am the Vice President – Rates & Regulatory Affairs for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Testimony of Patricia J. Childers in Support of Atmos Energy Corporation's Petition and the Exhibits thereto pre-filed in this docket on the date of filing on this Petition are true and correct to the best of my knowledge, information and belief.


Patricia J. Childers

Sworn and subscribed before me this 20th day of November, 2014


Notary Public

My Commission Expires: MAY 3, 2016

