BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF ATMOS ENERGY	)	
CORPORATION TO REVISE	)	
PERFORMANCE BASED	)	**TRA Docket No. 16-** 00028
RATEMAKING MECHANISM RIDER	)	
IN TARIFF	)	

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

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 37064.

Q. By whom are you employed and in what capacity?

A. I am employed by Atmos Energy Corporation ("Atmos" or the "Company" or "AEC"), as Manager, Regional Gas Supply.

Q. What are your responsibilities as Manger, Regional Gas Supply?

A. I am responsible for the development, implementation and direction of gas supply 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, Docket No. 11-00195, Docket No. 13-00111, Docket No. 14-00009, Docket No. 15-00009, and Docket No. 16-00008. 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 amend its Performance Based Ratemaking Mechanism ("PBRM") tariff rider as set forth in Tariff No. 1, at Tariff Sheet Nos. 45.1 through 45.9. The proposed amendments serve to adopt a package of revisions to the PBRM as recommended by the independent consultant Exeter Associates, Inc. ("Exeter"). The method of calculating shared savings contained in the current PBRM is unique to Atmos and not required of other public utilities providing natural gas services. Specifically, my testimony demonstrates how adopting the independent consultant's full package of recommendations will serve the interests of Tennessee gas consumers and the Company.

Q. What is the basis for the Company's proposed changes?

A. The purpose of the PBRM tariff is to provide financial incentives for the Company to optimize and lower its gas commodity costs and interstate pipeline capacity costs, and to maximize its asset management revenue. The PBRM incentives are intended to operate by providing the Company with a share of the savings and asset management revenue when the Company demonstrates actual costs are less than a market-based benchmark. On the flipside, if actual costs exceed the benchmark, the Company must reimburse customers for a share of the excess costs. The current PBRM tariff has several provisions that unintentionally serve as disincentives to greater savings. These are the deadband, the resetting of the deadband, and the annual cap on shared savings.

The Company's current PBRM tariff was adopted in the mid-1990s and has been subject to only minor amendment (the current PBRM tariff will be described in greater detail later in this testimony). In Tennessee Regulatory Authority ("TRA") Docket No. 13-00111, the Company proposed to amend its Performance Based Ratemaking Mechanism ("PBRM") tariff rider. The TRA, in its final Order in that docket, approved in part the requested changes, but denied in part other proposed changes. The TRA denied the Company's request to eliminate the three-year resetting of the deadband; however, the TRA's Order stayed the resetting of the deadband and set the lower end of the deadband at the current 97.4% for three years, or through March 31, 2017. The TRA also ordered that an already-scheduled triennial review by an independent outside consultant include a review of the PBRM deadband provisions.

Q. Who performed the triennial review and what was the scope of the review?

A. Exeter Associates, Inc. (Exeter) performed the triennial review. Exeter is an independent outside consultant and was mutually selected by the Company, TRA staff, and the Consumer Advocate (the "parties"), following an RFP process, to review transactions and activities related to Asset Management and the PBRM. Attached to the executed Consulting Agreement as Exhibit A, the scope of review agreed to by all parties specified the subject areas to be reviewed for the period April 1, 2011 through March 31, 2014 (audit period). Exeter's review commenced in the fall of 2014, and the consultant's final report was issued August 4, 2015. The Scope of the triennial review is attached as Exhibit RMB-1.

Q. Did Exeter make Recommendations following its review?

A. Yes. Following its triennial review, Exeter recommended adoption of a package of changes to the Company's PBR tariff, set forth as a bullet list in Section 7.3 of the report (Exeter's full report is attached as Exhibit RMB-2 - CONFIDENTIAL). Four of the eleven recommendations do not pertain to the terms of the PBRM tariff and therefore are not addressed here. (These involve suggestions to the Company for consideration in its design day planning process.) The other seven Exeter recommendations pertain specifically to the PBRM and are the basis of the Company's petition in this Docket. The Company has fully incorporated Exeter's seven PBRM recommendations into the proposed amended tariff rider, submitted in this proceeding as Exhibit RMB-3. Atmos is requesting the Authority's approval to implement these changes. It is important to note that in Section 7.2 of its report Exeter indicates that its recommendations are **inter-related provisions** to be adopted as a package. Modifying the package or cherry picking pieces of it would circumvent the intentional inter-relationship of its component parts. The following Table 1 summarizes the consultant's seven PBRM recommendations:

Table 1

Summary of Exeter's PBRM Recommendations (from Section 7.3)

1. Exclude NYMEX futures from benchmark.
2. 90/10 sharing of AMA Fees under the Capacity Management Incentive Mechanism (*no change from current*).
3. 75/25 sharing of Capacity Release revenue & off-system sales margins (*currently 90/10*).
4. 75/25 sharing of savings under the Gas Procurement Gas Procurement Incentive Mechanism (*currently 50/50*).
5. 75/25 sharing of savings from Avoided Demand charges for 3 years (*currently 50/50*). After 3 years sharing at 75/25, then 90/10 sharing of savings on Avoided Demand charges. Separately calculate Gas Procurement versus Avoided Demand savings & sharing (see p.55).
6. Consider shared savings from Avoided Demand on Transportation and Storage capacity.
7. Eliminate the $1.25 million cap and eliminate the deadband (*currently 97.4%-102%*).

Note: Sharing ratios are stated in the form of "Sales Customer/Company".

Q. Please describe more fully the Company's proposed changes to its existing tariff.

A. The Company generally agrees with the seven PBRM recommendations taken as a package and has reflected those recommendations in its proposed tariff amendments. The proposed changes are:

1. NYMEX futures prices should be excluded from the benchmark calculations under the PBRM;
2. The 90 percent sales customer and 10 percent Company sharing provisions under the Capacity Management Incentive Mechanism component of the PBRM should continue to apply for AMA fees;
3. A 75 percent sales customer and 25 percent Company sharing should apply under the Capacity Management Incentive Mechanism for capacity release revenues and off-system sales margins;
4. A 75 percent sales customer and 25 percent Company sharing provision should be adopted under the Gas Procurement Incentive Mechanism component of the PBRM;

5. Avoided demand charges should be shared under the Gas Procurement Incentive Mechanism component of the PBRM at the 75/25 percentages for a period of three years. After three years of sharing at the 75/25 percentages under a particular arrangement (or three years from adoption of these tariff amendments, whichever is later), avoided demand charges should be shared on a 90/10 percent basis. The 90/10 percent sharing should continue to apply when an expiring contract is replaced with a similar avoided cost arrangement;
6. Savings associated with the replacement of existing year-round transportation arrangements with less expensive arrangements or winter seasonal arrangements, and the replacement of the Company's relatively more expensive storage arrangements with lower-cost alternatives should be considered for inclusion under the PBRM as avoided demand charges; and
7. The $1.25 million PBRM cap and deadband should be eliminated as part of the adoption of Exeter's other PBRM sharing provision recommendations.

Q. With regard to the independent consultant's seven PBRM recommendations, is it true that certain recommendations call for Atmos to receive a reduced share of savings as compared that provided in the current PBRM?

A. Yes, that is correct. Two of the consultant's PBRM recommendations will reduce the share of Company savings, as compared to the current PBRM. Using Table -1 for reference, Exeter's PBRM recommendations #4 and #5 each reduce Atmos' share of savings. In recommendation #4, Exeter recommends a 25% share of savings to the Company under the GPIM, whereas currently the tariff allows the Company a 50% share of such savings. Under recommendation #5, Exeter recommends the Company share in 25% of the savings from avoided demand charges for three years, whereas currently the tariff allows the Company a 50% share. And after three years of sharing at 25%, Exeter recommends the Company's share of avoided demand charge savings be reduced to 10%; currently the tariff allows the Company a 50% share of savings. These reductions in sharing are significant, and taken alone, would undermine the intended purpose of the PBR program, which is to incentivize the Company to invest resources toward developing future gas cost savings for Tennessee customers.

Q. If Exeter's recommendations #4 and #5 reduce the percent of shared savings to the Company as compared to the current PBRM, why does Atmos support the consultant's recommendations?

A. Exeter's seven recommendations, taken as a package, provide a balanced portfolio of incentives. While some of Exeter's recommendations reduce shared savings to the Company, these are offset by other recommendations favorable to the Company, such as the elimination of the annual cap, elimination of the deadband, and inclusion of demand savings on transportation and storage contracts.

Q. Do you wish to comment on any of Exeter's other recommendations?

A. Yes. Regarding #5, the Company agrees that sharing at 75/25 should be recognized for all existing avoided demand charges for the first three years following adoption of the proposed tariff amendments. To continue to provide incentive to the Company to optimize savings during the interim period, (that is, the period of time between the date Exeter distributed its draft report and the effective date of the tariff changes), the Company should have assurance that it will share 75/25 on avoided demand charges for the first three years of the revised tariff. After three years, sharing would be 90/10; new avoided demand charge arrangements would be afforded the 75/25 sharing for the three years and then 90/10 thereafter.

Regarding #6, the Company states that sharing at 75/25 should be recognized for the first three years of the new tariff. This will provide the Company incentive during the interim period to use its resources toward pursuing and commencing cost saving arrangements, rather than creating an incentive to delay new contracts until after the new tariff provisions are finally adopted. Following three years of sharing at 75/25, sharing would continue for demand savings on existing arrangements at 90/10; that is, Exeter's recommendation in #5 would apply to #6 as well.

Q. Have the parties met to review the consultant's recommendations and to discuss Atmos' proposed PBRM tariff rider amendment?

A. Yes. The parties have discussed the consultant's report and PBRM recommendations along with Atmos' proposed tariff rider amendment on multiple occasions in person, by phone, and by email.

Q. Do you believe the proposed tariff amendments, which adopt the independent consultant's recommendations, are in the best interests of the consumers and the Company?

A. Yes. Rather than isolating only the recommended changes that would be favorable to the Company, we are requesting to implement all recommended changes. The consultant's recommendations are a package of incentives that work together and should be implemented as a package.

Q. Providing that the TRA approves the proposed PBRM tariff changes, what is the requested effective date of the changes?

A. The Company is proposing an effective date of April 1, 2016. This date is being requested as it aligns with the start of the Company's next Performance Based Ratemaking period. Even if the TRA's Order in this Docket is issued sometime after April 1, 2016, this tariff effective date would remain viable because the TRA Staff performs its annual audit after the end of the PBR period, and after the Company submits its annual PBR report by May 31, 2017. There will be more than sufficient time for the Company and Staff to assimilate the terms of the amended tariff before the Staff begins its next audit. If approved by the TRA with an effective date of April 1, 2016, the Company's first opportunity to recover a share of savings from the amended PBRM will be within its ACA filing made in the fall of 2017.

Q. When was Company's Performance Based Ratemaking 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 07-00253, (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, "Piedmont" or "PNG"). The Authority also approved in Docket 11-00034 Atmos' proposed tariff filed on August 9, 2011 clarifying the sharing of asset management fees, consistent with language in Piedmont's tariff. Among the principal remaining differences between the Atmos and Piedmont tariffs are that the Atmos PBRM has a deadband, a re-setting of the deadband, varying percentages of sharing by savings type, a lower cap for retained sharing of savings, and a specified reserve margin.

Q. Describe the Company's current Performance Based Ratemaking Mechanism Rider.

A. The current PBRM replaced the Purchase Gas Adjustment Rules under TRA Rule Section 1220-4-7-.05, which had been the traditional method of reviewing the prudence of the Company's gas supply acquisition and management activities. An 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 structure of the current Atmos PBRM tariff with respect to the Gas Procurement Incentive Mechanism.

A. The Atmos PBRM consists of two parts, a gas procurement incentive mechanism (GPIM), and a capacity management incentive mechanism. Under the gas procurement incentive mechanism, a benchmark is set utilizing relevant market based gas prices. The Atmos

PBRM tariff includes a deadband. This deadband feature is unique to Atmos; not found in the other TN regulated gas utility tariffs. 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%, and, as discussed below, also includes a deadband reset provision that lowers the deadband if Atmos performs better than the benchmarks. In its final Order in Docket 13-00111, TRA reset the low range of the deadband to 97.4% through March 31, 2017. If Atmos' total commodity cost of gas in a month falls within a deadband of 97.4% to 102% surrounding the benchmark amounts, there are no incentive savings or costs to be shared by the Company for that month. 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 for that month. Such savings or costs outside the deadband are shared 50/50 between the Company's customers and the Company. At the end of the annual PBR period that runs April 1 to March 31, the monthly shared commodity savings or shared commodity costs are net for the annual period to determine the annual shared cost or savings under the GPIM.

The Atmos TN tariff contains another unique provision, not found in the other TN regulated gas utilities' tariffs, and not found in any of the other eight Atmos regulated utility divisions. That is, under the current tariff the deadband re-sets every three years, so that when the Company achieves greater savings for customers by beating its benchmarks, the ultimate effect is that the deadband is lowered, making it even harder to achieve any shared savings, even when the Company continues to outperform market benchmarks. PBRM incentives should not be reduced when the Company performs better. Unfortunately, the deadband reset provisions under the Company's current tariff have that undesirable effect.

At the end of each three-year period, the low range of the deadband is readjusted to 1% below the most recent annual audited results (of actual cost) of the incentive plan. Absent any action by the TRA, the next deadband reset will occur April 1, 2017. As discussed further below, this deadband re-set provision causes distorted incentives and does not serve the overall interests of the PBRM tariff. The deadband and the reset features are unique to the Atmos tariff, serves as disincentives for pursuing least cost alternatives and should be removed.

Q. How does the GPIM's current design act as a disincentive for pursuing least cost alternatives?

A. By itself, the sharing of gas procurement savings and costs 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. When Atmos, through hard work, is able to beat its market benchmarks over a period of time, the lower end of the deadband is reduced, and Atmos is denied a 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 cannot share in those savings, even though the Company is performing exceptionally well as compared to the market and generating savings for customers. 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 provides shared savings, would be through higher gas costs. 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.

The current PBRM encourages the Company to direct its limited resources toward maximizing savings in jurisdictions that incentivize the extra effort required to develop and negotiate greater savings. Atmos must dedicate manpower and other resources in an effort to reduce its gas costs below market benchmarks. Such efforts reap benefits to consumers through lower gas costs. The GPIM should incentivize those efforts *every* year. Unfortunately, for the reasons described, the deadband re-set provision of the Atmos PBRM tariff undermines that goal.

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

A. Looking at the period April 1, 1999 through March 31, 2014, for which final audited numbers are available, Atmos performed exceptionally well, and has demonstrated a proven ability to achieve cost savings. The results of the annual TRA Staff audits show that in every single year Atmos has procured gas supply at a cost below the market benchmark, for a total savings of $26 million over those fifteen years. The TN customers' share of GPIM savings is nearly $22 million, or 85%. Atmos' share of savings through the GPIM has been 15%, approximately $4 million.

Q. The current tariff indicates the GPIM provides a 50% share of commodity savings to customers and a 50% share of commodity savings to Atmos; why then has Atmos' exceptional performance only provided the Company with a 15% share of GPIM savings over the past fifteen years?

A. There are several limitations in the current PBRM that prevent Atmos from ever realizing the full 50% incentive offered by the GPIM, despite the Company's excellent savings record. Those limitations are: the deadband, the deadband reset, and the $1.25 million annual cap. Over the fifteen year period, the impact of the deadband is such that sales customers have received 100% of the first $15.75 million in GPIM savings within the deadband. The deadband reset provision effectively penalizes Atmos' cost saving performance by expanding the band and giving customers a greater share of savings over time. Rather than rewarding the Company for exceptional results, this reset feature is actually a disincentive to greater savings. Similarly, the annual cap on PBRM savings dampens the incentive to generate savings. Over the years, Atmos has expended significant resources toward developing cost saving strategies in TN, resulting in greater cost savings for customers. The Company's shared savings incentives earned under the PBRM, which should have been awarded to Atmos, are withheld and never distributed to the Company because of an annual cap on total PBRM savings.

Q. Do you know how much Atmos' Gas Procurement activities have saved Tennessee customers in recent years?

A. Yes. The following table illustrates the Gas Procurement Savings Atmos has achieved over the past four years. The column showing the "Total Customer GPIM Savings" includes the dollars that Atmos' activities saved the customers that were inside each year's deadband

(100% of the savings within the deadband go directly to the customers) as well as the shared dollars of savings generated by Atmos through low procurement costs below the deadband.

TABLE 2 - ATMOS GAS PROCUREMENT SAVINGS TO TN CUSTOMERS				
	Gas Cost	Customer Retained Gas Procurement Savings		
	Percent of	100% Within	Shared Savings	Total Customer
Plan Year	Benchmark	the Deadband	Below the Band	GPIM Savings
2010 - 2011	98.2%	$ 683,476	$ 211,463	$ 894,939
2011 - 2012	91.1%	$ 1,338,985	$ 2,152,850	$ 3,491,835
2012 - 2013	90.9%	$ 1,186,684	$ 1,858,949	$ 3,045,633
2013 - 2014	94.5%	$ 1,721,051	$ 1,201,213	$ 2,922,264
4 Year Total	94.0%	$ 4,930,196	$ 5,424,475	$ 10,354,671

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

A. No. Prior to 2006, PNG had a gas procurement incentive deadband of 99% - 101%, but the deadband feature of PNG's PBRM was removed effective July 1, 2006 by TRA Order in Docket No. 05-00165. Chattanooga Gas does not have a deadband.

Q. Does Exeter recommend elimination of a deadband within the PBRM?

A. Yes. As previously indicated, Exeter recommends elimination of the deadband, and the Company's proposed amended PBRM tariff rider adopts this recommendation.

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

A. Yes. As previously indicated, there is currently an annual cap on the total amount that Atmos may receive under the PBRM. Atmos is limited to $1.25 million each year. Exeter recommends removal of the cap, and the Company's proposed amended PBRM tariff rider adopts this recommendation.

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

A. PNG is limited to $1.6 million annual shared savings and Chattanooga's incentive savings are not limited by a cap, 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. You manage the Company's PBRM in Atmos' Kentucky service area. Please describe the Kentucky PBRM, noting its similarities and differences with the Tennessee PBRM.

A. Similar to the Tennessee PBRM, the Kentucky program encompasses gas procurement commodity costs (including asset management revenue), capacity release revenues, and off-system sales revenues. In contrast to Tennessee, the Kentucky program also offers incentives for savings on transportation costs, including demand charges and transportation commodity charges and avoided pipeline costs on delivered supply services.

Q. Specifically, regarding commodity cost savings, how do the KY and TN PBRMs compare?

A. For commodity cost savings, the KY and TN PBRMs are similar in that the actual monthly invoiced cost of gas is compared to a benchmark. Both the KY and TN benchmarks are calculated based on actual purchase volumes multiplied by the average of a basket of market based price indices (IFERC and NYMEX) for First of Month baseload gas and the Platt's Gas Daily (GD) index for incremental daily purchases. In KY, any asset management fixed payment/credit is a component of the actual commodity cost component as a reduction to actual costs. In TN, the asset management fixed payment/credit is a separate component of savings, and the Company receives a lower incentive sharing rate (10%) on the asset management fixed payment as compared to the sharing rate on commodity savings (50% currently, and 25% proposed).

Q. Regarding transportation cost savings, how do the KY and TN PBRMs compare?

A. For transportation cost savings in the Kentucky program, actual monthly invoiced transportation costs are compared to the benchmark using pipeline max rates for both demand and commodity transportation costs. In contrast, the current Tennessee PBRM offers no shared savings on transportation costs. The proposed TN tariff amendment adopts Exeter's recommendation #6 "*Savings associated with the replacement of existing year-round transportation arrangements with less expensive arrangements or winter seasonal arrangements, and the replacement of the Company's relatively more expensive storage arrangements with lower-cost alternatives should be considered for inclusion under the PBRM as avoided demand charges*." This would bring the TN incentives more in line with Kentucky.

Q. How are avoided cost savings from exchange services or delivered supply services handled in the TN and KY PBRMs?

A. In Kentucky, the avoided cost savings from exchange services or delivered supply services versus upstream pipeline demand charges are incorporated in the transportation component of the PBRM. In the current TN PBRM, savings on exchange and delivered supply services are embedded in the GPIM. The consultant's report finds fault with the TN methodology, stating on page 55 "*To simplify administration of the savings and sharing calculations under the Gas Procurement Incentive Mechanism, Exeter recommends that these calculations be separately developed*." Atmos' proposed tariff amendment adopts Exeter's recommendation. In both the Kentucky and the Tennessee PBRMs, pipeline max rates are considered the benchmark for determining prudently incurred pipeline costs. If the Company is able to negotiate a price for an alternative service that is lower than the prudent pipeline max rate, the variance is considered savings to the customer. Through the PBRM's sharing of such savings, both states incentivize the Company to negotiate rates that are below the prudent max rate.

Q. Do the PBRMs in TN and KY offer similar sharing incentives?

A. No. With regard to the percentage of sharing incentives, in Kentucky, savings from all components of the PBRM are netted together and the same sharing percentages are applied to total savings regardless of how the savings were attained. In this way the KY program incentivizes the Company to pursue a variety of cost saving strategies without concern for which strategy provides a higher rate of sharing; the focus is more on an overall strategy of achieving total optimal savings as opposed to which strategy provides the greater incentive.

As just mentioned, in Kentucky all savings are net and then the incentive sharing percentages are applied to the total calculated savings. There are two tiers of sharing for variances from benchmark. In the first tier, total savings of up to 2% of benchmark are shared 70% sales customer and 30% Company; in the second tier, savings greater than 2% of benchmark are shared 50% sales customer and 50% Company.

In contrast, the Tennessee PBRM offers different sharing percentages for different types of savings. The percentages are shown in Table 1 of my testimony. The sharing percentages to the Company range from 10% to 50% in the current PBRM, and from 10% to 25% in the proposed amended PBRM.

Q. Does the Kentucky PBRM have a deadband?

A. No.

Q. Does the Kentucky PBRM have a cap on annual savings to the Company?

A. No.

Q. Atmos also has PBR programs in its Louisiana and Mississippi divisions; how do those programs compare to the Atmos Tennessee PBRM?

A. The Louisiana and Mississippi PBR programs include a transportation cost savings component similar to Atmos' Kentucky's PBRM (and the proposed amendment in Tennessee) in that actual transportation costs are compared to pipeline max rates. Both Louisiana and Mississippi incentivize the Company by providing a 50% share of savings. Unlike the Tennessee PBRM, there is no deadband and no cap on savings in either Louisiana or Mississippi.

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 customers and the 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 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%, the fourth resetting in 2011 changed the lower band to 97.4%, and most recently, by Order in Docket 13-00111, TRA reset the low range of the deadband to 97.4% through March 31, 2017. 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 should incentivize the Company to seek innovative ways to achieve cost reductions for consumers. The Company's efforts have led to significant cost reductions which came to fruition in the 2011/2012 PBR year. Through new citygate delivered services, Atmos saved customers several million dollars annually in avoided pipeline demand charges in the 2011/2012 PBR year. The negotiated citygate 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 the 2012/2013 and 2013/2014 PBR years. 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. 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. And in the 2013/2014 annual PBR period, Atmos' commodity costs were 94.5% of the market-based benchmark cost, with cost savings below benchmark of 5.5%. During this timeframe, the low end of the deadband was set at 97.4%, meaning that customers fully retained the first 2.6% of commodity savings before sharing additional savings 50/50 with the Company. It was in the 2013/2014 annual PBR period that for the first time in fifteen years, since the inception of the PBRM, Atmos' earned incentive savings exceeded the cap of $1.25 million. Similarly, in each of the annual PBR periods thereafter, Atmos' earned incentive savings have exceeded the cap.

The PBRM tariff requires that every three years a new low end of the deadband be recalculated based on the results of the most recently audited annual PBRM, that is, actual commodity procurement costs as a percent of benchmark costs, less 1%. If the TRA had not taken action in Docket 13-00111 to temporarily freeze the low end of the deadband at 97.4%, the low band would have reset to 89.9% for the three year period 4/1/14 – 3/31/2017, The reset low end of the deadband would have resulted in the customers retaining the first 10.1% of any savings before the Company had any opportunity to share in the savings. I estimate that with a reset to 89.9%, the Company's share of savings would have decreased from the cap of $1.25 million down to approximately $ 0.5 million annually. The current tariff's reset provision would require the Company to beat market prices by more than 10% before sharing in any Commodity incentive. Such an outcome would be unprecedented, punitive, and serve as a financial disincentive to the Company to seek out savings in Tennessee. It is common sense, good business practice, and sound regulatory policy that in order to be effective, incentive 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 its limited resources toward researching regional market changes, analyzing usage statistics and structuring contracts so that the Company can be in position to avail itself of citygate delivered services that avoid upstream capacity costs. When Atmos is successful at negotiating citygate services, the avoided upstream capacity costs are included in the PBR commodity benchmark, as prescribed by the tariff.

The avoided cost component attributable to citygate services has been included in the Company's PBRM tariff since its inception. Even so, the potential for significant savings via new citygate delivered services was not contemplated by the parties, and the impact that increased savings have had on the resetting of the deadband was not foreseen. No one 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 citygate 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 customers through citygate delivered services. The Company directed its efforts to renegotiating contracts and creating opportunities for savings through citygate delivered services.

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

A. Yes. Atmos has looked at the reports from reviews of PNG's Incentive Plan, and in particular, the review covering the three year period 2008-2011, which was filed with the TRA February 19, 2013, under Docket 05-00165. PNG's reviews were also performed by Exeter. Exeter's findings in its review of PNG are relevant to Atmos' request in this proceeding. Exeter recommended 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 citygate delivered services as an alternative to holding pipeline capacity. For the three year period 2011 – 2014, Atmos achieved significant demand savings through citygate delivered services, just as Exeter recommended in its report on PNG. In its most recent review of PNG's Incentive Plan, for the period 2011-2014, Exeter reports that PNG was able to generate significant savings in early 2014 through the use of citygate delivered services.

The Company's citygate 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 of the current agreements, Atmos has contracted for a three-year gas supply and asset management agreement which includes citygate delivered services at a cost savings as compared to holding year-round upstream pipeline capacity. There are factors outside the Company's control that could affect the availability and cost of citygate delivered services beyond the contractual period, and it certainly is not a "given" that the same level of savings realized currently will be achieved in the future. The Company is 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 such services may be priced at a premium. Obtaining these services requires substantial ongoing effort by the Company. It requires more Gas Supply Department activity to monitor the market on a regular basis and implement this program than it does to simply hold year-round firm capacity to its citygates. While it would be easier for Atmos to simply subscribe to upstream pipeline capacity, this would likely lead to increased overall supply costs to the Company's sales customers.

Savings from citygate delivered services are neither random nor 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 undertakes this additional effort when it is incentivized to do so by the terms of the PBRM. The result is a net savings for Tennessee rate payers, exactly the goal of performance based ratemaking.

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' tariff should be revised as discussed herein.

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

A. We ask the Authority to recognize that Atmos has demonstrated its ability to achieve cost savings through innovative transactions and activities that avoid expensive, long term interstate pipeline charges, and to acknowledge that the current PBRM tariff rider does not appropriately incentivize the Company to expend further resources toward developing future cost savings in TN. We ask the Authority to approve the amended PBRM tariff rider, which adopts the independent consultant's package of seven recommendations, corrects the shortcomings of the current tariff, and is in the best interest of the Company and Tennessee customers. We ask that the tariff rider have an effective date of April 1, 2016 to coincide with the next annual PBR period.

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 25 of February, 2016.

Deborah G. Sparkman

Notary Public

My Commission expires 8-22-16

DEBORAH G. SPARKMAN
STATE OF TENNESSEE NOTARY PUBLIC
RUTHERFORD COUNTY

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF ATMOS ENERGY	)	
CORPORATION TO REVISE	)	
PERFORMANCE BASED	)	TRA Docket No. 16-
RATEMAKING MECHANISM RIDER	)	
IN TARIFF	)	

EXHIBIT RMB-1 TO

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

EXHIBIT A

SCOPE OF REVIEW

The consultant should anticipate review of the following areas covering the period April 1, 2011 through March 31, 2014 (audit period).

1. Review of Atmos Energy Corporation's (hereafter "Atmos Energy's") Tennessee transactions and activities related to asset management, including:

    a. Natural gas procurement;

    b. Capacity management;

    c. Storage;

    d. Hedging;

    e. Reserve Margins; and

    f. Off-system sales.

2. Review of the deadband provision within Atmos Energy's tariff Performance Based Ratemaking Mechanism Rider (PBR). Evaluate and provide expert information on:

    a. Whether a deadband is necessary to achieve the intended purpose of the incentive plan (that is, to change purchasing behavior, which in turn results in gas being procured at a lesser price);

    b. An appropriate deadband range, if one is necessary, to achieve the intended purpose of the incentive plan;

    c. Whether there should be a reset mechanism for any deadband;

    d. If a deadband reset mechanism is recommended, the appropriate determinants for the reset (the Company's historical performance, the market performance, or some other factor).

3. Review and analyze Atmos Energy's service territories in Tennessee with regard to design day forecasts, load duration curves, storage utilization plans and gas supply portfolio.

4. Analyze and evaluate the manner in which Atmos Energy considers the effects of energy conservation in its forecasts of peak demand.

5. Review and examine the levels of peak and non-peak, as well as design day and non-design day, firm capacity under Atmos Energy's interstate pipeline transportation and storage contracts to assess the available capacity levels and their reasonableness, including the amount of total excess capacity that is available for sale, lease or release. .

6. Review and identify the total fixed cost of year-round firm transportation contracted by Atmos Energy to meet projected design day demand.

7. Review and identify the total fixed cost of available seasonal firm transportation and the availability of seasonal firm transportation.

8. Review and analyze the transactions and activities undertaken by or on behalf of Atmos Energy relative to natural gas procurement for Atmos Energy's system supply as reported in the annual Performance-Based Ratemaking Mechanism (PBR) and Actual Cost Adjustment (ACA) filings.

9. Review and analyze the transactions and activities undertaken by or on behalf of Atmos Energy relative to storage inventory management.

10. Review and analyze the transactions and activities undertaken by or on behalf of Atmos Energy relative to off-system sales.

11. Review the published indexes and adjustments to those indexes used in the calculation of the benchmarks in Atmos Energy's annual PBR filings, including the appropriateness and calculation of the adjustments made for avoided transportation costs for city gate purchases versus the demand charges actually paid to suppliers as defined in the PBR tariff.

12. Review Atmos Energy's city gate delivered supply contracts to determine whether they provide measureable benefits to the consumers under the terms of the PBR tariff.

13. Evaluate the balance of incentives between consumers and Atmos Energy in its PBR tariff, including the sharing percentage and overall cap on incentive savings available to Atmos Energy.

14. Review the affiliate relationship between Atmos Energy and its affiliates to determine compliance with the Guidelines for Affiliate Transactions contained in the Atmos PBR tariff.

15. Preparation and submission of a written report regarding the foregoing activities and conclusions, which shall include findings of fact, and which shall also identify and describe areas of concern or improvement, if any, that in the consultant's opinion warrant further consideration. The consultant's report shall be provided to the Staff, the Consumer Advocate and Protection Division of the Tennessee Attorney General's Office (CAPD), and Atmos Energy no later than July 1, 2015.

16. In conducting the foregoing activities, Atmos Energy shall make available records and materials appropriate and necessary for consultant's work hereunder. Staff and/or CAPD may also provide relevant materials to consultant; provided that such materials are simultaneously provided to Atmos Energy.

17. Consultant shall be required to treat its work hereunder and all materials and information disclosed to it in conjunction with such work as commercially sensitive information to be treated as confidential information in accordance with the 2014 Protective Order issued in TRA Docket No. 07-00225.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF ATMOS ENERGY	)	
CORPORATION TO REVISE	)	
PERFORMANCE BASED	)	TRA Docket No. 16-
RATEMAKING MECHANISM RIDER	)	
IN TARIFF	)	

EXHIBIT RMB-3 TO

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

TENNESSEE REGULATORY AUTHORITY GAS TARIFF

OF

ATMOS ENERGY CORPORATION

Communications Regarding This Tariff
Should be Addressed to:

Patricia J. Childers, VP Rates & Regulatory Affairs
Atmos Energy Corporation
810 Crescent Centre Drive, Suite 600
Franklin, Tennessee 37067

PERFORMANCE BASED RATEMAKING MECHANISM RIDER

Applicability

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 ~~S~~service reliability, and will provide for a shared savings or costs between the Company and the Company's ~~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 four parts: ~~two parts:~~

A. Gas Procurement Incentive Mechanism
B. Capacity Management Incentive Mechanism
C. Avoided Cost Incentive Mechanism
D. Off System Sales Revenue Incentive Mechanism

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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. For commodity 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 baseload purchases, the price index will be the appropriate *Inside FERC Gas Market Report* first of the month price for that particular month. For incremental swing purchases, the published *Platts's Gas Daily daily mid-point price* for the business day of gas flow will be used as the index. The net incentive benefits from the GPIM ~~savings or costs~~ will be shared between the Company's customers and the Company on a ~~50% / 50%~~ 75%/25% 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 includes all credits the Company receives through its transportation invoice from the release of portions of its transportation contracts via pipelines' electronic bulletin boards/customer activity websites. Net incentive benefits from capacity release will be shared between the Company's customers and the Company on a 75%/25% basis. 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 from asset management fees will be shared between the Company's customers and the Company on a 90% /10% basis.

The Avoided Cost Incentive Mechanism is designed to encourage the Company to explore ways to reduce upstream fixed and variable capacity costs associated with the transportation of gas commodity. The avoided cost is the cost that would have been paid if the pipeline capacity and transportation needed to serve the Company's peak day requirement plus reserve margin were purchased at tariff max rates. Avoided cost can be accomplished through delivered service, transportation discounts obtained directly with the pipeline, indirectly through the acquisition of discounted released capacity, or through the acquisition of seasonal capacity that avoids year round demand charges. Savings under this mechanism shall be shared between the Company's customers and the Company on a 75%/25% basis for the first three (3) years of the contractual service. The sharing will be changed to 90%/10% after 3 years of savings under essentially the same contractual service. However, if such an existing contractual service is renewed or replaced and provides incremental savings, the incremental savings shall be shared at 75%/25% for three (3) years and subsequently at 90%/10%. Incremental savings may be created through, inter alia, renewal or replacement with an increase in MDQ (maximum daily quantity) and/ or a renewal or replacement with the same MDQ and a lower overall cost. All contracts in effect at the time this revised tariff is approved by the Tennessee Regulatory Authority shall be deemed to begin on the date that this revised tariff is effective.

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

The Off-system Sales Revenue Incentive Mechanism is designed to encourage the Company to generate revenue from off-system sales of excess natural gas commodity. Off-system sales occur after the gas requirements of Atmos' sales customers have been met and include direct sales of gas to third parties who are not subject to gas cost adjustment under the Purchased Gas Adjustment Clause in the Company's tariff. Net benefits from off-system sales revenue shall be shared 75%/25%.

~~Gas Procurement Incentive Mechanism~~

~~**Commodity 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 baseload, spot purchases, the price index will be a simple average of the appropriate *Inside FERC Gas Market Report,* and NYMEX indexes first of the month price for that particular month. For incremental swing purchases, the published *Platts's Gas Daily daily mid-point price* 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.~~

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~~If the total commodity cost of gas in a month falls within a deadband 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. The deadband shall be set at 97.4% to 102% until April 1, 2017. The consultant's review set to conclude in July 2015, required by Docket No 07-00225 should include a review of the deadband range, including an evaluation of an appropriate deadband and whether one is necessary.~~

~~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).~~

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 ~~a lone~~ 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.

N

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.

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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.

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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.

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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:

I. 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 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~~

~~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 annual reports, the (T) 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.~~

| **Issued by:** **Patricia J. Childers, VP Rates and Regulatory Affairs** **Effective Date:** April 1, 2016~~December 21, 2012~~

T.R.A. No. 1
1st Revised Sheet No. 45.8
ATMOS ENERGY CORPORATION **Cancelling Original Sheet No. 45.8**

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Review Process

If and when ~~review is~~ ordered by the TRA, ~~, a~~ comprehensive review of the transactions and activities related to Asset Management shall be conducted ~~by an independent consultant~~. The timing and specific scope of such review will be established by the TRA at the time that the review is ordered, and the TRA will determine at that time whether outside independent consultant is needed. If a review is ordered to be conducted by an outside consultant, the consultant shall be selected as follows. ~~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.

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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 the date ordered by the TRA. 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.

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 the normal expirations of any affected agreements.

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.