TENNESSEE REGULATORY AUTHORITY

502 Deaderick Street, 4th Floor
Nashville, Tennessee 37243

October 20, 2016

Mr. Jerome D. Mierzwa
Exeter Associates, Inc.
10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

RE: TRA Docket No. 16-00028 – ***Petition of Atmos Energy Corporation to Revise Performance Based Ratemaking Mechanism Tariff Rider.***

Dear Mr. Mierzwa:

To assist TRA Party Staff in its preparation in the above-captioned matter, please provide a response to the following:

With reference to the following Exeter recommendation appearing on page 59 of Exeter's Report, filed on September 18, 2015 in TRA Docket No. 07-00225, please respond to the clarifying questions below:

> Avoided demand charges should be shared under the Gas Procurement Incentive Mechanism component of the PBRM at the 75/25 percentages for no more than three years. After three years of sharing at the 75/25 percentages under a particular arrangement, a 90/10 percent sharing of avoided demand charges would be more reasonable. **The 90/10 percent sharing should continue to apply when renewing an expiring contract and replacing that contract with a similar avoided cost arrangement [emphasis added]**; and
>
> 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.

1. What event (if any) would trigger the 90/10 sharing percent to revert back to a 75/25 percent level for a particular avoided demand charge arrangement (for example change in rates or volumes)?

2. What criteria should be applied to a contract to distinguish it as a new arrangement (subject to the 75/25 percent sharing) and not a replacement "with a **similar** avoided cost arrangement"?

3. Would additional savings generated from an incremental volume change or rate change upon renewal of an expiring contract be shared 75/25?

4. Exeter recommends a 75/25 sharing of savings for avoided demand charges for the first three years and 90/10 sharing thereafter. Please explain the detriment that might result to the balance of incentives in the plan if one blended (or average) rate was applied to all avoided demand charges instead of different sharing splits. If a blended rate is a viable option, is there a sharing percentage you would recommend?

5. The reading of Exeter's recommendation could be interpreted to mean that the calculation of any avoided demand charges is on an individual contract basis. Please clarify if this interpretation is correct.

6. As gas supply requirements change from year to year, resulting in individual contract renewals and additions of new contracts, please explain the feasibility of calculating demand cost savings at either 75/25 or 90/10 percent level of sharing by comparing one year's portfolio of contracts to the next year's portfolio under the recommendation(s) of Exeter.

7. The following Tables show a hypothetical example of the replacement of existing arrangements and addition of new arrangements for a Company from plan year 1 ended March 31, 2017 through plan year 5 ended March 31, 2021. What should be the benchmark when calculating savings: (a) the rate of the existing/replaced contract or (b) the current MAX FERC Rate of the pipeline at the time the new contract is executed? Please show us the calculation of any savings from "Demand Charge Reductions" in Year 1 through Year 5 as contemplated by Exeter in its report and recommendations.

Original	MDQ	Contract Rate	Annual Demand	End Date
Pipeline A	54,000	$10.00	$6,480,000	3/31/2016
Pipeline B	5,000	$4.00	$240,000	3/31/2016
Total	59,000	$9.49	$6,720,000	

YEAR 1 ended 3/31/2017	MDQ	Contract Rate	Annual Demand	End Date	MAX FERC Rate at execution of new contract
Pipeline A	34,000	$5.00	$2,040,000	3/31/2025	$6.00
Pipeline B	15,000	$3.00	$540,000	3/31/2020	$3.50
Pipeline C	5,000	$3.00	$180,000	3/31/2019	$4.00

Pipeline D	5,000	$2.00	$120,000	3/31/2018	$2.50
Total	59,000	$4.07	$2,880,000		

<u>Year 2</u> - New Pipeline E contract.

YEAR 2 ended 3/31/2018	MDQ	Contract Rate	Annual Demand	End Date	MAX FERC Rate at execution of new contract
Pipeline A	34,000	$5.00	$2,040,000	3/31/2025	$6.00
Pipeline B	15,000	$3.00	$540,000	3/31/2020	$3.50
Pipeline C	5,000	$3.00	$180,000	3/31/2019	$4.00
Pipeline D	5,000	$2.00	$120,000	3/31/2018	$2.50
Pipeline E	12,000	$4.00	$576,000	3/31/2030	$5.00
Total	71,000	$4.06	$3,456,000		

<u>Year 3</u>- Pipeline D was replaced with a contract having the same volumes, but at a higher rate (which is lower than the MAX FERC Rate).

YEAR 3 ended 3/31/2019	MDQ	Contract Rate	Annual Demand	End Date	MAX FERC Rate at execution of new contract
Pipeline A	34,000	$5.00	$2,040,000	3/31/2025	$6.00
Pipeline B	15,000	$3.00	$540,000	3/31/2020	$3.50
Pipeline C	5,000	$3.00	$180,000	3/31/2019	$4.00
Pipeline D	5,000	$2.50	$150,000	3/31/2021	$3.00
Pipeline E	12,000	$4.00	$576,000	3/31/2030	$5.00
Total	71,000	$4.09	$3,486,000		

<u>Year 4</u>- Pipeline C was replaced with a contract having the same volume, but with a lower rate (which is the same as the MAX FERC Rate).

YEAR 4 ended 3/31/2020	MDQ	Contract Rate	Annual Demand	End Date	MAX FERC Rate at execution of new contract
Pipeline A	34,000	$5.00	$2,040,000	3/31/2025	$6.00
Pipeline B	15,000	$3.00	$540,000	3/31/2020	$3.50
Pipeline C	5,000	$2.50	$150,000	3/31/2023	$2.50
Pipeline D	5,000	$2.50	$150,000	3/31/2021	$3.00
Pipeline E	12,000	$4.00	$576,000	3/31/2030	$5.00
Total	71,000	$4.06	$3,456,000		

Year 5- Pipeline B was replaced with a contract having the same rate, but an increase of 5,000 Dth in volumes.

YEAR 5 ended 3/31/2021	MDQ	Contract Rate	Annual Demand	End Date	MAX FERC Rate at execution of new contract
Pipeline A	34,000	$5.00	$2,040,000	3/31/2025	$6.00
Pipeline B	20,000	$3.00	$720,000	3/31/2028	$3.50
Pipeline C	5,000	$2.50	$150,000	3/31/2023	$2.50
Pipeline D	5,000	$2.50	$150,000	3/31/2021	$3.00
Pipeline E	12,000	$4.00	$576,000	3/31/2030	$5.00
Total	76,000	$3.99	$3,636,000		

Sincerely,

James R. Layman
Attorney for TRA Party Staff

CC: Scott Ross, Attorney for Atmos Energy Corporation
Wayne Irvin, Attorney for Consumer Advocate
Docket File