Tennessee Regulatory Authority

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

Exeter Associates, Inc. – Response to Discovery Requests of TRA Party Staff

Docket No. 16-00028

With reference to the following Exeter recommendation appearing on page 59 of Exeter's Report, filed on September 18, 2015 in TRA Docket No. 07-0225, 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)?

Response

Exeter cannot envision an event that would trigger the 90/10 percent sharing to revert back to a 75/25 percent sharing.

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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"?

Response

A new avoided cost arrangement would be a citygate gas supply arrangement that eliminated current pipeline demand charges. A replacement arrangement would not eliminate current pipeline demand charges, but would be replacing an existing citygate gas supply arrangement.

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

Response

An incremental increase in volumes that eliminated additional current interstate pipeline demand charges would be shared 75/25 percent. For a rate change that incrementally increased avoided demand charges, the incremental amount would be shared 75/25 percent.

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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?

Response

Exeter believes that adopting a blended sharing rate would not have a significant detrimental impact on the balance of incentives under the PBRM. If adopted, Exeter would recommend a blended sharing rate of 85/15 percent, which should accomplish a sharing comparable to the combined three-year 75/25 percent and thereafter 90/10 percent recommendation included in Exeter's Report.

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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.

Response

This interpretation is correct and is consistent with the approach utilized under the PBRM during the review period.

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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.

Response

Please see the response to Question 7.

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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		

Year 2 - 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		

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Year 3- 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		

Year 4- 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

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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		

Response

Exeter has not proposed a mechanism for the sharing of total interstate pipeline portfolio demand cost savings. Exeter's recommendation proposed consideration of expanding the sharing provisions applicable to avoided demand costs to include less expensive firm transportation or storage arrangements. This recommendation was made pursuant to Item 15 of the Scope of Review for this project. Implementation of this recommendation would be on an individual contract basis. Although there may be merit to such an approach, Exeter does not believe that developing a sharing mechanism for total interstate pipeline portfolio demand cost savings could be accomplished under the existing PBRM framework, and such an approach would require a complete redesign of the PBRM.

The Scope of Review in this proceeding did not envision a complete restructuring of the current PBRM. As explained on page 54 of Exeter's final report, Exeter's recommendations recognize that the PBRM has been in operation since 1999, and this history should be considered in proposing changes to the existing PBRM. Exeter's recommendation would likely have been different if the current PBRM were not in place.

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