

TENNESSEE REGULATORY AUTHORITY

502 Deaderick Street, 4th Floor
Nashville, Tennessee 37243

November 7, 2016,

Ms. Sharla Dillon, Docket Manager
Tennessee Regulatory Authority
502 Deaderick Street, 4th Floor
Nashville, Tennessee 37243

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

Dear Ms. Dillon,

Enclosed is the *Pre-Filed Direct Testimony of Michelle Ramsey* for filing in the above referenced case on behalf of TRA Party Staff. Thank you for your assistance in this matter.

Sincerely,



James R. Layman
Attorney for TRA Party Staff

enclosure

cc: Scott Ross, Attorney for Atmos Energy *via electronic mail*
Wayne Irvin, Attorney for Consumer Advocate *via electronic mail*
Jerry Mierzwa, Exeter Associates *via electronic mail*

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

IN RE:

)
)
PETITION OF ATMOS ENERGY)
CORPORATION TO REVISE)
PERFORMANCE BASED)
RATEMAKING MECHANISM TARIFF)

DOCKET NO. 16-00028

PRE-FILED DIRECT TESTIMONY

OF

Michelle Ramsey

1 **Q. Please state your name for the record.**

2 A. Michelle Ramsey.

3 **Q. By whom are you employed and what is your position?**

4 A. I am employed as the Audit Manager of the Utilities Division by the Tennessee
5 Regulatory Authority, 502 Deaderick Street, Nashville, Tennessee.

6 **Q. How long have you been employed in connection with the public utility industry?**

7 A. I have worked for the Authority since 2007.

8 **Q. What is your educational background and what degrees do you hold?**

9 A. I earned B.A. degrees in Economics and Business Administration from Chonnam National
10 University in South Korea in 2003. I also earned a MBA degree from the University of
11 Tennessee at Martin in 2005. I have been a Certified Public Accountant in Tennessee
12 since 2008.

13 **Q. Would you briefly describe your responsibilities as the Audit Manager with the**
14 **Authority?**

15 A. My primary duties at the Authority include overseeing and managing the work flow of the
16 audits of natural gas utilities regulated by this Authority. These audits include Incentive
17 Plan Account audits of three (3) gas companies, Actual Cost Adjustment audits of five (5)
18 gas companies and Weather Normalization Audits of three (3) gas companies. For the
19 past five (5) years, I have managed and performed the annual audits of Atmos Energy
20 Corporation's ("Atmos" or "Company") Performance Based Ratemaking Mechanism
21 Rider (PBRM), with audit reports filed in Docket Nos. 12-00044, 13-00084, 14-00054 and
22 15-00060. The current year's audit of the PBRM is being conducted under Docket No.
23 16-00066. The Company's PBRM is the subject of this Docket.

1 **Q. What information have you reviewed in preparation for your testimony?**

2 A. I have reviewed the Company's Petition in this Docket, including the Direct Testimony of
3 its witnesses and the proposed amended PBRM Rider to its tariff. I have also reviewed
4 the Discovery Requests of the TRA Party Staff ("Staff") to the Company and Exeter
5 Associates, Inc. ("Exeter"), as well as the Consumer Protection and Advocate Division of
6 the Attorney General's Office ("Consumer Advocate") Data Requests to the Company and
7 Exeter, along with the respective responses. In addition, I reviewed Exeter's final report
8 on Atmos' capacity planning and gas purchasing activities under the PBRM, issued on
9 August 4, 2015 in Docket No. 07-00225 and the Authority's final Order in Docket No. 13-
10 00111.

11 **Q. What is the purpose of your testimony?**

12 A. The purpose of my testimony is to put forth TRA Party Staff's ("Party Staff") positions,
13 concerns and recommendations regarding changes proposed by Atmos to its PBRM tariff
14 based on the Recommendations of Exeter in its final report. I will also discuss three
15 related issues that Party Staff would like addressed and implemented in this Docket.

16 **Q. Please provide the relevant background leading up to Atmos' filing of this Petition.**

17 A. On August 13, 2013, Atmos filed a Petition to amend its PBRM tariff in Docket No. 13-
18 00111. In that Petition, in addition to certain "housekeeping" changes to the tariff
19 language, Atmos proposed to delete the deadband reset provision found under the Gas
20 Procurement Incentive Mechanism (GPIM) portion of its PBRM. Following a hearing
21 held on June 16, 2014, the panel of Directors determined that the request to eliminate the
22 three-year resetting of the lower end of the deadband provision should be denied. The
23 lower end of the deadband would be set at 97.4% until March 2017. All other

1 “housekeeping” proposals were approved.

2 The panel also noted in its order that the next triennial review was set to conclude in July
3 2015. Therefore, the Authority ordered that the scope of the triennial review should
4 include “a review of the deadband range, including an evaluation of an appropriate
5 deadband range and whether one is necessary.”¹

6 **Q. Can you further explain how the recommendations that were relied upon by Atmos**
7 **to support the requested changes to its PBRM in this Docket were developed?**

8 A. Atmos’ PBRM tariff contains a section on the terms of the Review Process. Atmos, the
9 TRA Staff and the Consumer Advocate provide the oversight for the RFP process and
10 prepare an agreed-upon Scope of Review for the potential consultant. The three parties
11 must also agree on the selection of the independent consultant following receipt of the
12 bids. The scope in the latest triennial review included a review of the deadband provision
13 of Atmos’ PBRM tariff as ordered by the Authority. The parties also agreed to expand the
14 scope to include an evaluation of the balance of incentives between consumers and Atmos
15 in the PBRM, including the sharing percentages and overall cap on incentive savings
16 available to Atmos.

17 **Q. What were the recommendations made by the independent consultant?**

18 A. Exeter Associates, Inc. was selected to conduct the independent review of Atmos’ asset
19 management activities and the provisions of its PBRM tariff as outlined in the Scope of
20 Review. In August 2015, Exeter filed its final report and recommendations. The
21 recommendations concerning Atmos’ PBRM can be found in Section 7.3 of the report

¹ *In Re: Petition of Atmos Energy Corporation to Revise Performance Based Ratemaking Mechanism Rider in Tariff*,
Docket No. 13-00111, Order, page 15 (January 8, 2015).

(pages 58 and 59).² The relevant recommendations which affect the PBRM tariff are as follows:

- NYMEX futures prices should be excluded from the benchmark calculations under the PBRM;
- 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;
- 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;
- The \$1.25 million PBRM cap and deadband should be eliminated if Exeter's other PBRM sharing provision recommendations are adopted;
- A 75 percent sales customer and 25 percent Company sharing provision should be adopted under the Gas Procurement Incentive Mechanism component of the PBRM;
- 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; and
- Savings associated with the replacement of existing year-round transportation arrangements with less expensive arrangements or winter seasonal arrangements, and the

² Direct Testimony of Rebecca M. Buchanan, Exhibit RMB-2.

1 replacement of the Company's relatively more expensive storage arrangements with
2 lower-cost alternatives should be considered for inclusion under the PBRM as avoided
3 demand charges.

4 **Q. Please discuss Atmos' proposed revised PBRM tariff and Party Staff's position(s)**
5 **and recommendation(s).**

6 A. Party Staff will approach its discussion of the proposed changes to the existing PBRM
7 tariff by addressing each section of the revised tariff as presented in Company Witness
8 Buchanan's direct testimony (see Exhibit RMB-3). Ms. Buchanan states that "the
9 proposed amendments serve to adopt a package of revisions to the PBRM as
10 recommended by the independent consultant Exeter Associates, Inc."³

11 **Q. What standard will Party Staff use as a basis for its recommendations to the**
12 **Authority regarding the proposed changes to the PBRM tariff?**

13 A. The Company's petition seeks to amend its PBRM tariff to adopt seven recommendations
14 Exeter made in its Report which affect the computation and sharing of savings benefits
15 under the Company's incentive plan. Generally, Party Staff does not oppose
16 implementation of any of Exeter's recommendations; however, it should be noted that
17 some of Exeter's recommendations are conceptual in nature and do not provide the
18 detailed information necessary to compute the savings benefits in dollars that would result
19 if the recommendation was implemented (*e.g.*, benchmarks, formulas, etc.). As discussed
20 later in my testimony, Party Staff recommends that certain changes be made to the
21 proposed tariff to clarify how implementation of Exeter's recommendations would affect
22 computation of savings benefits under the Company's revised PBRM.

³ Direct Testimony of Rebecca M. Buchanan, page 2.

1 In my review of the Company's request to implement the Exeter recommendations
2 through its proposed PBRM tariff, I considered the following general concepts which I
3 believe are important to a well-designed and properly functioning incentive rate
4 mechanism:

5 The Company's PBRM should provide for:

- 6 • Reasonable incentives to the Company for minimizing gas procurement costs, thereby
7 obviating the need for prudency reviews;
- 8 • Performance benchmarks and provisions that produce incentive plan benefits that are
9 objective, measurable and fairly apportioned between ratepayers and the Company;
- 10 • Performance benchmarks and provisions that are clearly-defined and not overly complex
11 or burdensome to administer or audit; and
- 12 • Proper accounting and reporting of plan activities and results which are transparent and
13 verifiable.

14 Prior to making any change to the Company's existing PBRM, Party Staff would
15 recommend that the Authority keep this conceptual framework firmly in mind and reject
16 any proposal for revision that would undermine any of its general tenets or weaken this
17 overall structure for incentive rate mechanisms.

18 **Gas Procurement Incentive Mechanism (GPIM)**

19 **Q. Please describe the terms of the current GPIM.**

20 A. As explained on page 53 of the Exeter Report, the existing Gas Procurement Incentive
21 Mechanism (GPIM) has two components. First, the GPIM provides for a performance
22 comparison of commodity prices paid by Atmos for monthly natural gas supply with
23 market price indices for relevant purchase points. Second, it provides for a performance

1 comparison of the demand charges incurred under delivered-to-citygate arrangements with
2 avoided pipeline demand charges. Incentive savings computed under the GPIM are
3 currently shared on a 50/50 percent basis between sales customers and Atmos.

4 The GPIM also includes a deadband within which no sharing takes place. Atmos is only
5 able to share in calculated savings if Atmos beats the benchmark sufficiently to fall below
6 the lower limits of the deadband. Another provision unique to Atmos is that under the
7 current tariff, the lower end of the deadband re-sets every three years to 1% below the
8 most recent annual audited results.

9 **Q. What recommendations did Exeter make with respect to the GPIM calculations?**

10 Consistent with Exeter's recommendation that the GPIM calculations be separately
11 developed (see page 55 of the Exeter Report), the Company's proposed tariff moves the
12 calculation of savings attributable to avoided pipeline demand charges associated with
13 delivered-to-citygate gas supply arrangements from the GPIM to a newly-created Avoided
14 Cost Incentive Mechanism (ACIM). The Company's proposed ACIM and related Exeter
15 recommendations will be discussed later in my testimony.

16 Exeter makes three additional recommendations affecting the GPIM's remaining
17 calculation of incentive savings attributable to commodity prices. First, Exeter
18 recommends on page 58 of its Report that "NYMEX futures prices should be excluded
19 from the benchmark calculations under the PBRM" when evaluating the Company's
20 commodity procurement performance under the GPIM. Second, on page 59 of the Report,
21 Exeter recommends that a "75 percent sales customer and 25 percent Company sharing
22 provision should be adopted under the Gas Procurement Incentive Mechanism component
23 of the PBRM" rather than the current 50/50 percent basis. Third, on page 59 of the

1 Report, Exeter recommends that if all its sharing recommendations are adopted, then the
2 deadband should be eliminated.

3 **Q. Does Atmos incorporate these recommendations into its proposed GPIM?**

4 Yes. The Company's proposed tariff revises the GPIM appropriately to incorporate these
5 three recommendations. Further, the proposed GPIM language provides an objective and
6 reasonable basis for calculating incentive savings attributable to Atmos' performance
7 under the GPIM by comparing monthly commodity costs to predefined benchmarks that
8 reflect market commodity prices. Party Staff, therefore, does not oppose the Company's
9 proposed changes to the GPIM as reflected in its proposed tariff.

10 **Capacity Management Incentive Mechanism (CMIM)**

11 **Q. Please describe the terms of the current CMIM.**

12 A. The existing Capacity Management Incentive Mechanism (CMIM) tracks the Company's
13 performance for release of unused system capacity to transport and store natural gas in the
14 secondary market, as well as Atmos' efforts to market excess natural gas commodity
15 through off-system sales activities. The CMIM also accounts for fees received by the
16 Company when it enters into asset management arrangements (AMA) with asset managers
17 for utilization of the Company's transportation and storage contracts (see page 52 of the
18 Exeter Report). Incentive savings calculated under the CMIM are presently shared
19 between sales customers and the Company on a 90/10 percent basis.

20 The Company's proposed tariff removes the calculation of incentive savings attributable
21 to off-system sales activities from the CMIM to a newly-created Off-system Sales
22 Revenue Incentive Mechanism (OSRIM). The Company's proposed OSRIM and related
23 Exeter recommendations will be discussed later in my testimony.

1 **Q. What recommendations did Exeter make with respect to the CMIM calculations?**

2 Exeter makes two recommendations affecting the remaining components of the CMIM.
3 On page 59 of its Report, Exeter recommends that that a “75 percent sales customer and
4 25 percent Company sharing should apply under the Capacity Management Incentive
5 Mechanism for capacity release revenues” rather than the current 90/10 percent sharing
6 basis. However, the “90 percent sales customer and 10 percent Company sharing
7 provision under the Capacity Management Incentive Mechanism component of the PBRM
8 should continue to apply for AMA fees.”

9 **Q. Does Atmos incorporate these recommendations into its proposed CMIM?**

10 Yes. The Company’s proposed tariff revises the CMIM appropriately to incorporate these
11 two recommendations. Further, the proposed CMIM language provides an objective and
12 reasonable basis for calculating incentive savings attributable to Atmos’ performance
13 under the CMIM by clarifying the capacity release activities to be shared on a 75/25
14 percent basis and by specifically noting that AMA fees will be shared on a 90/10 percent
15 basis. Party Staff, therefore, does not oppose the Company’s proposed changes to the
16 CMIM as reflected in its proposed tariff.

17 **Avoided Cost Incentive Mechanism (ACIM)**

18 **Q. Are all of the incentive savings contemplated under the proposed ACIM currently**
19 **found in the existing PBRM tariff?**

20 A. No. Currently avoided demand savings associated with the delivered-to-citygate gas
21 supply arrangements are calculated and shared under the existing GPIM. These savings
22 are now addressed in the new ACIM.

23 On page 55 of its Report, however, Exeter identifies other potential efforts by Atmos to

1 reduce demand charges that are not included in the existing plan, which should be
2 considered for inclusion in the PBRM. According to Exeter, these activities might include
3 “replacement of existing year-round transportation arrangements with less expensive
4 arrangements or winter seasonal arrangements, and the replacement of the Company’s
5 relatively more expensive storage arrangements with lower-cost alternatives.” Exeter
6 states that inclusion of these savings “would be consistent with the goal of the PBRM to
7 encourage behavior that reduces purchased gas costs.”

8 **Q. Please describe the recommendations that apply to this new ACIM.**

9 A. On page 59 of its Report, Exeter recommends that avoided costs calculated under this
10 mechanism should be shared at a 75 percent customer and 25 percent Company level for
11 the first three years. After that the sharing should be a 90/10 percent ratio in favor of sales
12 customers, which Exeter considers more reasonable. Exeter also stated that the 90/10
13 sharing should continue to apply when an expiring contract is renewed and replaced with a
14 similar avoided cost arrangement.

15 **Q. Has Atmos incorporated these recommendations into the new ACIM?**

16 A. Atmos correctly incorporated the stated sharing percentages in the new tariff language.
17 The Company, however, included “incremental savings” which would be created through
18 a renewal or replacement of a contract with an increase in MDQ (maximum daily
19 quantity) and/or a renewal or replacement with the same MDQ but lower overall cost.
20 These savings, per the Company, should be shared at a 75/25 percent ratio in favor of
21 sales customers. Additionally, Atmos included a provision that existing contracts in effect
22 at the date the new tariff becomes effective should be considered “new” and as such
23 receive the 75/25 sharing percentage for the first three years of the new tariff.

1 **Q. Is the possibility of incremental savings addressed in Exeter's Report?**

2 A. No. Exeter, however, clarified in its October 31, 2016 response to a Party Staff Data
3 Request (Question #3) that the incremental portion of incentive savings should be shared
4 at the 75/25 percent ratio. Exeter, however, stipulated the conditions under which
5 incremental savings would apply: (1) an incremental increase in volumes that eliminated
6 additional current interstate pipeline demand charges; and (2) a rate change that
7 incrementally increased avoided demand charges. Atmos did not specifically spell out in
8 the proposed tariff language the conditions that must be met in order to qualify as
9 incremental savings under the proposed ACIM.

10 **Q. Does Party Staff agree that existing contractual service arrangements should be**
11 **deemed to begin on the date the revised PBRM tariff becomes effective?**

12 A. No, Party Staff does not agree. Sharing percentages should be determined under the new
13 ACIM based on each current contract's effective date. Contractual service arrangements
14 that are still within the first three years of their term should be shared 75/25 until the end
15 of the three year period, then change to 90/10 sharing thereafter as per Exeter's
16 recommendation.

17 **Q. What are some of the concerns that Party Staff has regarding this particular**
18 **mechanism?**

19 A. Calculation of avoided demand savings for the delivered-to-citygate gas supply
20 arrangements has been part of the existing GPIM for many years; however, the tariff
21 language should be amended to include a well-defined performance benchmark for
22 measuring shared savings under this activity.

23 Staff is also concerned that there is insufficient guidance provided in the tariff language

1 regarding the calculation of shared savings for the “other efforts” that Exeter suggested
2 should be considered under the plan. Party Staff requested Atmos to provide examples of
3 how the Company would interpret the tariff in order to calculate the savings generated by
4 these other efforts. Atmos provided this information and indicated that it would calculate
5 the savings by comparing the Company’s portfolio of capacity contracts for a year to its
6 portfolio of capacity contracts the next year.

7 However, Exeter responded to Party Staff’s Data Request (Question #5) on October 31,
8 2016, that such calculations should be on an individual contract basis. Further, Exeter
9 responded to Party Staff’s Data Request (Question #7) that Exeter has not proposed a
10 mechanism for the sharing of total interstate pipeline portfolio demand cost savings, that
11 its recommendation in this regard proposed consideration of expanding the sharing
12 provisions applicable to avoided demand costs to include less expensive firm
13 transportation or storage arrangements, and that implementation of its recommendation
14 would be on an individual contract basis. Exeter stated further that it did not believe that
15 developing a sharing mechanism for total interstate pipeline portfolio demand cost savings
16 could be accomplished under the existing PBRM framework, and that development of
17 such an approach would require a complete redesign of the PBRM.

18 Based on Exeter’s responses to Party Staff’s questions, Party Staff does not recommend
19 the adoption of an incentive mechanism based on annual portfolio comparisons without
20 further study on the restructuring of the PBRM.

21 **Q. What other concerns does Party Staff have regarding the ACIM?**

22 A. Party Staff believes that the complexity of this mechanism, which changes the sharing
23 ratio from 75/25 to 90/10 after three years of a new contract, provides for inclusion of

1 incremental savings at 75/25 sharing for three years and 90/10 sharing thereafter, and
2 requires the tracking of individual contracts and incremental savings over the course of the
3 terms of those arrangements in order to apply the correct percentage sharing, will become
4 complex and unwieldy to administer and audit over time. Party Staff therefore asked
5 Exeter in its Data Request (Question #4), whether a blended sharing rate applied to all
6 savings could be adopted that would not have a detrimental impact on the balance of
7 incentives under the PBRM. Exeter responded on October 31, 2016 that in its opinion a
8 blended sharing rate would not have a significant detrimental impact and, if adopted by
9 the Authority, Exeter would recommend an 85/15 blended sharing rate, which should
10 accomplish a sharing comparable to the three-year 75/25 percent and thereafter 90/10
11 percent recommendation included in Exeter's Report. Therefore, Party Staff would
12 recommend the adoption of a blended sharing rate of 85/15 percent applicable to all
13 transactions included under the proposed ACIM.

14 **Q. Are there any other concerns?**

15 A. Yes. In order to calculate shared savings, incentive benchmarks must be established for
16 comparing the Company's plan activities with performance standards that are relevant,
17 objective and measurable. There are no such benchmarks identified in Atmos' proposed
18 tariff language. Prior to implementation, clearly defined performance benchmarks should
19 be established and included in the proposed ACIM section of the PBRM tariff.

20 **Q. What is Party Staff's recommendation regarding the treatment of savings identified**
21 **in the ACIM portion of the PBRM?**

22 A. Staff does not object to including avoided demand costs under the delivered-to-citygate
23 gas supply arrangements under the ACIM, provided that an appropriate benchmark to

1 measure associated shared savings is written into the tariff. If, however, Atmos wishes to
2 include the “other efforts” referenced by Exeter, revisions to the tariff language must be
3 made to clearly specify how to calculate such shared savings. In order to meet the
4 standard set forth in my earlier testimony, calculation of the incentive plan savings should
5 be objective, measurable, and not overly complex or burdensome to administer or audit.
6 Development of such performance benchmarks should also be consistent with Exeter’s
7 responses to Party Staff’s Data Requests, as discussed previously in my testimony.

8 In summary, Party Staff is not opposed to the fundamental concept of Avoided Cost
9 Discount Savings. Party Staff, however, has concerns over the proposed implementation.
10 In particular, the Company’s proposed tariff does not contain sufficient detail regarding
11 appropriate benchmarks to adequately track the Company’s performance and compute
12 related shared savings under the proposed ACIM.

13 **Off-system Sales Revenue Incentive Mechanism (OSRIM)**

14 **Q. Please describe the terms of the new OSRIM in Atmos’ revised tariff.**

15 The Company’s proposed tariff creates a new Off-system Sales Revenue Incentive
16 Mechanism (OSRIM) designed to incentivize the Company to generate revenue through
17 off-system sales of excess natural gas commodity after the gas requirements of its sales
18 customers have been met. Atmos did not have any off-system sales activities during the
19 period reviewed by Exeter; however, on page 59 of its Report, Exeter recommends that
20 should the Company engage in off-system sales activities in the future, the sharing
21 percentage for off-system sales margins should be increased to a “75 percent sales
22 customer and 25 percent Company” sharing provision.

23 **Q. Does Atmos incorporate these recommendations into its proposed OSRIM and does**

1 **Party Staff have any suggestions as to possible additions to the tariff language as**
2 **presented by Atmos?**

3 Yes. While Party Staff does not oppose the inclusion of the OSRIM in the proposed tariff,
4 Party Staff recommends that the tariff language be modified to further clarify the
5 computation of incentive savings under this mechanism. The proposed language provides
6 as follows: “Net benefits from off-system sales revenue shall be shared 75%/25%.”
7 Consistent with Exeter’s recommendation, Party Staff recommends that the term “net
8 benefits” be clarified to mean “off-system sales margins.” For clarity, off-system sales
9 margins should be further defined. For instance, Service Schedule No. 316 of Piedmont
10 Natural Gas Company’s tariff defines such margins as follows:

11 Margin on such [off-system] sales will be defined as the difference between
12 the sales proceeds and the total variable costs incurred by the Company in
13 connection with the transaction, including transportation and gas costs, taxes,
14 fuel or other costs. For purposes of gas costs, the Company will impute such
15 costs for its related supply purchases at the benchmark first-of-the-month or
16 daily index, as appropriate, on the pipeline and in the zone in which the sale
17 takes place. The difference between the Company’s actual costs and such
18 index price is taken into account under the Plan. After deducting the total
19 transaction costs from the sales proceeds, any remaining margin will be
20 credited to commodity gas costs and shared with customers on a 75%-
21 customer / 25%-stockholder basis.

22 Party Staff recommends that a substantially similar definition of off-system sales margins
23 be adopted for the PBRM, to clarify how shared savings under this mechanism should be

1 calculated.

2 **PBRM Cap and Deadband**

3 **Q. Please describe Exeter's recommendations regarding the overall Cap of savings**
4 **available to Atmos and the Deadband that is included under the GPIM.**

5 A. On page 59 of its Report, Exeter recommends the \$1.25 million cap and deadband should
6 be eliminated if Exeter's other PBRM sharing provision recommendations are adopted.

7 **Q. What is Party Staff's position regarding the Cap and Deadband?**

8 A. Party Staff is not opposed to implementing Exeter's recommendation to eliminate the
9 PBRM cap and deadband, if all of Exeter's other recommendations are implemented in a
10 manner that satisfies Party Staff's general concerns regarding the appropriate conceptual
11 framework underlying incentive rate mechanisms, as discussed earlier in my testimony.

12 **Q. Notwithstanding Party Staff's positions on individual issues addressed in my**
13 **testimony thus far, does Party Staff have final thoughts and/or recommendations?**

14 A. Yes. If the revised tariff provisions requested by Atmos cannot be structured to fit within
15 Party Staff's conceptual framework for incentive rate mechanisms, as discussed earlier in
16 my testimony, then Party Staff would propose that only the relevance of a deadband, as
17 contemplated and ordered in Docket No. 13-00111, be addressed in this Docket. In that
18 case, Party Staff's recommendation would be to reinstate the original deadband range and
19 eliminate the resetting of the lower end of the deadband, as requested by Atmos in Docket
20 No. 13-00111, leaving all other provisions of the current PBRM unchanged.

21 **Other Issues**

22 **Q. Are there any other issues that Party Staff would request the Authority to address?**

23 A. Yes. In addition to the issues directly related to the revised PBRM tariff presented in this

1 Docket, Party Staff believes there are three additional ancillary issues related to the
2 incentive plan that should also be addressed at this time.

3 **Q. What are these three related issues and why is it important to address them in this**
4 **Docket?**

5 A. The first issue is the continuation of the triennial reviews of Atmos' PBRM tariff and the
6 incorporation of this requirement into the tariff language.

7 **Q. Why is it important to continue these independent consultant reviews?**

8 A. Party Staff believes that, considering the major changes to the PBRM tariff proposed in
9 this Docket, it is important to follow up with independent reviews of the impact of these
10 changes (should they be approved) on the Company and its customers using real time data
11 (instead of historical data) in order to assess whether the changes in fact accomplish the
12 objectives of the incentive plan.

13 **Q. Considering there is a cost associated with the consultant review, is that cost**
14 **justified?**

15 A. Party Staff believes that it is. Based on our past experience with these independent
16 consultant reviews for Piedmont Natural Gas, Chattanooga Gas Company, as well as
17 Atmos, they have proven productive and a real value to TRA Staff by providing natural
18 gas industry expertise to the Authority. The information reported also benefits customers
19 and the TRA has approved passing the cost of reviews to customers via the deferred gas
20 cost account in the ACA audit process, since it is minimal when considered on a per
21 customer basis. Because the incentive plans take the place of the annual prudence audits
22 required by the Purchased Gas Adjustment Rule (PGA Rule), which states that the cost of
23 the audits shall be "recorded in the LDC's Deferred Gas Cost Account," this is a

consistent treatment of the consultant fees for such reviews.⁴

Q. Do other gas companies have an on-going triennial review requirement as part of their incentive tariff(s)?

A. Yes, Piedmont Natural Gas has this requirement as part of its Service Schedule No. 316 Performance Incentive Plan.⁵

Q. What is the second issue that Party Staff proposes to address in this Docket?

A. The second issue relates to the filing date of the tariff implementing the rate adjustment resulting from the calculated ending balance in the Incentive Plan Account⁶ at March 31 each year. Rather than waiting six months to file the IPA rate adjustment, which makes it coincide with the tariff filing to implement the ACA rate adjustment for the Actual Cost Adjustment review period ending June 30 each year, Staff would recommend that the Company file its IPA rate adjustment by May 31 to become effective July 1. This would be consistent with the other gas companies, who file their IPA and ACA rate adjustment tariffs three months following the close of the review period.

Q. Why does Party Staff consider the filing of the IPA rate adjustment tariff three months following the close of review period important?

A. The ending balance in the IPA Account is known for March 31 following the close of the Company's books for March. Therefore, the Company has ample time to file a tariff by May 31. Waiting an additional three months to coincide with the ACA rate adjustment tariff artificially inflates the ending balance the next year by the calculation of three

⁴ Purchased Gas Adjustment Rule 1220-4-7-.05(1)(a)3.

⁵ See Section entitled: Independent Review of Performance Incentive Plan, page 1.

⁶ The Incentive Plan Account is comparable to the ACA Account, which is a deferred account used to accumulate gas costs and recoveries in the Actual Cost Adjustment annual audit true-up process. The Incentive Plan Account accumulates the Company's share of gas cost savings, so that a rate can be calculated at the end of the audit process to assess the Company's share back from customers, who receive the full benefit of savings when gas is purchased.

1 additional months of interest. Since Atmos has two different review periods for its ACA
2 and IPA filings, this would necessitate two tariff filings for Atmos as opposed to one
3 combined tariff filing. If Atmos would prefer to have one tariff filing for both, that would
4 necessitate changing the review period of one to coincide with the other.

5 **Q. What is the third related issue that TRA Party Staff proposes to address in this**
6 **Docket?**

7 A. The third issue is establishing a deadline for Atmos to file its executed Asset Management
8 contract with the Authority for its approval.

9 **Q. Why is it necessary to have a deadline established for Atmos?**

10 A. Historically, Atmos has filed its executed Asset Management contract and supporting
11 documentation for the selection process at the end of February or in March. Since its
12 contract year begins on April 1, this does not provide enough time to adequately review
13 the bidding and selection process prior to the Authority's consideration of the new Asset
14 Management contract at the regularly scheduled March conference. Authority action on
15 the proposed Asset Management contract is necessary by the March conference since the
16 contract year, as well as the Company's incentive plan year, begins on April 1.

17 **Q. What deadline would Party Staff find acceptable to allow enough time for a**
18 **reasonable review?**

19 A. Party Staff proposes that a deadline of December 1 be established for the filing of the
20 executed Asset Management contract. Filing the proposed executed contract four months
21 prior to its effective date would be consistent with the filing dates and review period for
22 similar asset management arrangements filed by Chattanooga Gas Company.

1 **Q. Atmos requests an effective date of April 1, 2016 for its revised PBRM tariff. The**
2 **Company's reasoning is that it aligns with the start of the next Performance Based**
3 **Ratemaking period. Does Party Staff agree with this effective date?**

4 **A.** Yes, Party Staff agrees that this is a reasonable effective date. As discussed by Atmos'
5 witness Buchanan, this date would coincide with the beginning of the current review
6 period which ends on March 31, 2017. Atmos will file its annual report on the PBRM by
7 May 31, 2017 for Staff audit. That will give the TRA time to conduct its hearing and
8 reach a decision in this Docket prior to March 31, 2017.

9 **Q. Does this conclude your testimony?**

10 **A.** Yes.

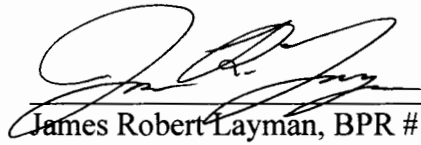
CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the 7th day of November, 2016, an exact copy of the foregoing was served via electronic mail to the following

Wayne M. Irvin
Wayne.irvin@ag.tn.gov

A. Scott Ross
sross@nealharwell.com

Jerry Mierzwa
jmierzwa@exeterassociates.com


James Robert Layman, BPR # 30662

VERIFICATION

STATE OF TENNESSEE)

COUNTY OF DAVIDSON)

I, Michelle Ramsey, being duly sworn, state that I am authorized to make this verification on behalf of TRA Staff (As a Party); that I have read the foregoing Pre-filed Direct Testimony, of Michelle Ramsey and know the content thereof; and that the same are true and correct to the best of my knowledge, information and belief.

Michelle Ramsey

Michelle Ramsey

Sworn to and subscribed before me the 17th day of November, 2016.

Renee Lawless

Notary Public

My Commission Expires:

1/9/2018

