SIMS FUNK

Electronically Filed in TPUC Docket Room on April 11, 2023 at 12:10 p.m.

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23-00026

April 11, 2023

Tory Lawless
Docket Manager
Tennessee Public Utility Commission
502 Deaderick Street, Fourth Floor
Nashville, TN 37242

VIA E-MAIL and FEDERAL EXPRESS
tpuc.docketroom@tn.gov

RE: Atmos Energy Corporation – Petition for Approval of Hedging Program

Dear Ms. Lawless:

Enclosed is Atmos Energy Corporation's Petition for Approval of a Tennessee Hedging Program, consisting of the following:

(1) The original and four hard copies of one volume containing all relevant filings;
(2) An original and four copies of a thumb-drive containing electronic copies of all relevant filings; and
(3) A $25.00 check for the filing fee.

The Petition, along with a PDF copy of all attachments, were filed electronically today.

Please let me know if you have any questions.

Sincerely,

Erik C. Lybeck

Erik C. Lybeck

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY CORPORATION FOR APPROVAL OF A TENNESSEE HEDGING PROGRAM	**)** **)** **)**	**DOCKET NO. 23-00026**

PRE-FILED TESTIMONY OF SHAWN M. AUDIBERT
ON BEHALF OF ATMOS ENERGY CORPORATION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Shawn M. Audibert. My business address is 1100 Poydras St, Ste 3400 New Orleans, LA 70163.

Q. BY WHOM ARE EMPLOYED AND WHAT IS YOUR POSITION?

A. I am currently employed by Atmos Energy Corporation ("Atmos Energy" or "Company") as the Director of Regional Gas Supply and Services.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Atmos Energy's Gas Supply Department.

Q. PLEASE SUMMARIZE YOUR CURRENT RESPONSIBILITIES AND PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I received a B.S. in Finance, from the University of New Orleans in 2001. I also received an MBA from the University of New Orleans in 2006. I was hired by a subsidiary of Atmos Energy's unregulated marketing division, Atmos Energy Holdings, Inc. in 2002 as a Natural Gas Transportation Analyst. After progressing through roles of increasing responsibility in that division, I became an employee of Atmos Energy's shared services division in 2017. I assumed my current role as the Director of Regional Gas Supply & Services in 2022, although I have had primary responsibility for Atmos Energy's hedging program since 2018.

Q. DO YOU SPONSOR ANY EXHIBITS WITH YOUR TESTIMONY?

A. Yes, I sponsor Exhibit No. SMA-1, which is new Original Sheet 43.1 containing our proposed hedging program. I also sponsor Exhibit No. SMA-2 which contains revised Tariff Sheet Nos. 36 and 45.1 to correspond with the proposed hedging program.

Q. HAVE YOU SUBMITTED TESTIMONY BEFORE THIS OR ANY OTHER REGULATORY COMMISSION?

A. Yes. I have submitted testimony before the Kansas Corporation Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. To describe the Company's proposal for its Natural Gas Hedging Program ("Hedging Program.")

Q. WHAT IS THE NATURE AND PURPOSE OF HEDGING ACTIVITIES?

A. The purpose of the proposed Hedging Program is to provide natural gas price stability. The tools of the proposed Hedging Program will allow the Company to be more nimble in its approach to procuring its gas supply. The Heding Program will also afford customers certain safeguards against the risk of market-driven fluctuations in gas prices.

Q. WHAT IS THE CURRENT STATUS OF THE COMPANY'S HEDGING ACTIVITIES IN TENNESSEE?

A. The Company is currently permitted to enter into hedges; however, all of the benefits associated with those hedges would be reflected in the customer's Purchased Gas Adjustment ("PGA") mechanism. The Company does not have a mechanism to recover any costs associated with hedges and therefore does not implement any hedges. While the Company supports hedging as a mechanism to provide the Company's customers with some protection against price volatility, in the other states in which it hedges, all of the approved hedging benefits and costs flow through to the customers.

II. PROPOSED HEDGING PROGRAM

Q. WHAT IS THE COMPANY'S PROPOSED HEDGING PROGRAM?

A. The Company proposes to hedge a targeted percentage of natural gas purchases for two winter seasons in advance. That percentage will be no more than 50% of forecasted winter normal purchases, which does not consider storage withdrawals as winter purchases. The Company proposes an annual budget of $4.0 million. Depending on cost of financial instruments, the Company may not have to utilize the entire budget to provide adequate price stability. This hedging timeframe is consistent with the time horizon that the Company hedges for in Colorado, Louisiana, Mississippi, and Virginia. The Company would use deferred-premium call options, hedging for the winter of 2023-2024 (up to 50%) and 2024-2025 (up to 25%) in calendar year 2023. The Company believes that the hedging timeframe of two winter seasons, rather than just one season, helps to provide additional price stability.

Q. HOW WOULD THE TIMING OF HEDGING PLAN COSTS AND BENEFITS WORK?

A. By using deferred premium call options, which would settle in the winter, all of the costs and benefits would occur during the winter season. The Company is proposing to flow the hedging program impacts through a separate component of the PGA mechanism which would essentially be treated as a component of gas costs.

Q. WHAT OTHER ASPECTS OF THE HEDGING PROGRAM WOULD THE COMPANY PROPOSE?

A. The Company will use a third-party advisor, Gelber & Associates, to assist in the timing of hedges, volumes to hedge, and type of financial instrument.

Q. WOULD THE COMPANY MEET WITH COMMISSION STAFF REGARDING THE HEDGING PROGRAM?

A. Similar to other jurisdictions which have approved hedging programs, the Company would meet regularly, no less than annually, with Staff to review the results of the hedging plan, describe the market conditions observed, and discuss any potential program adjustments.

Q. DOES THE COMPANY PROPOSE TO UTILIZE ITS HEDGING PROGRAM FOR BOTH ITS NON-UNION CITY AND UNION CITY PURCHASED GAS ADJUSTMENTS?

A. Yes. The Company proposes to prorate the percentage of hedges based on forecasted winter normal purchases for each PGA area.

Q. DID THE MOST RECENT REPORT FOR THE COMPANY'S TRIENNIAL REVIEW RECOMMEND A HEDGING PROGRAM IN THE FUTURE?

A. Yes. In the Company's most recent triennial review report issued in June 2022 and filed in Docket No. 16-00028, the consultant's list of recommendations concerning the Company's PBRM included the following: "If, as a result of the recent increase in the volatility of gas commodity prices, the [Commission] Staff and [Consumer Advocate Division] believe it would be appropriate for Atmos to hedge a portion of its gas costs to mitigate gas cost rate volatility, Exeter believes it would be appropriate for the PBRM to be modified to ensure that hedging gains and losses are excluded from the calculation of GPIM savings or costs."[1]

III. CONCLUSION

Q. WHY DO YOU BELIEVE THE COMPANY'S PROPOSED HEDGING PROGRAM IS IN THE PUBLIC INTEREST?

A. I believe the proposed program is properly designed to help mitigate the impacts of gas price volatility. As long as the expenses of the hedging program are prudently incurred and consistent with the approved hedging program, it will provide price stability that is in the public's best interest.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[1] *In re: Petition of Atmos Energy Corporation to Revise Performance Based Ratemaking Mechanism Tariff,* Docket No. 16-00028, Atmos Energy Corporation Response to the Recommendations in Exeter's Final Report on Atmos Energy's Performance Based Ratemaking Mechanism Tariff Rider ("PBRM") For the Period of April 1, 2017 Through March 31, 2020 (Sept. 1, 2022).

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY CORPORATION FOR APPROVAL OF A TENNESSEE HEDGING PROGRAM	))))	**DOCKET NO. 23-XXXXX**

VERIFICATION

STATE OF LOUISIANA)

ORLEANS PARISH)

I, Shawn M. Audibert, being first duly sworn, state that I am the Director of Regional Gas Supply and Services for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Direct Testimony of Shawn M. Audibert in support of Atmos Energy Corporation's filing is true and correct to the best of my knowledge, information and belief.

Shawn M. Audibert

Sworn and subscribed before me this 3rd day of April, 2023.

Notary Public

My Commission Expires: ______________________

STEPHEN T. PERRIEN
Notary Public
Parish of Orleans, State of Louisiana
My Commission is Issued for Life.
Bar No. 22590
Notarial No. 49480

T.R.A. No. 1 Original
Sheet No. 43.1

ATMOS ENERGY CORPORATION

HEDGING ACTIVITIES

The Company may engage in hedging activities and recover those costs through the Purchased Gas Adjustment (PGA) Rider/Actual Cost Adjustment (ACA) Mechanism. Costs related to hedging transactions may be recovered through the ACA account; provided, however, that such costs recovered through the ACA account shall not exceed a predetermined budget. The hedging transaction budget shall be $4.0 million per winter season.

Hedging transactions, as used herein, shall include but not be limited to futures contracts, financial derivative products such as swaps, options, or other private agreements to hedge, manage or stabilize gas costs.

Costs related to hedging transactions recoverable through the ACA account shall be defined as all direct, transaction related costs arising from the Company's prudent efforts to stabilize or hedge its commodity gas costs including, without limitation, brokerage fees, and the costs of financial instruments. All costs related to hedging transactions, in addition to all gains and losses from hedging transactions, shall be credited/debited to the ACA after the hedging transaction closes and in the applicable winter month. Costs related to hedging transactions that are incurred prior to the month that the hedging transaction closes shall be temporarily recorded in a separate, noninterest-bearing account for tracking purposes.

The following types of financial instruments, either at the market, or out of the money, may be used to effectuate hedging transactions:

- Swaps (NYMEX or an appropriate market index)
- Upfront premium call options (NYMEX or an appropriate market index)
- Deferred premium call options (NYMEX or an appropriate market index)

Hedging transactions may be entered into beginning April 1st each year for the two upcoming winter seasons. Hedging transactions may hedge up to 50% of expected natural gas purchases for the upcoming winter season and up to 25% of expected natural gas purchases for the winter season following the upcoming winter season. Expected natural gas purchases are defined as winter normal requirements less expected storage withdrawals.

The Company shall make an annual presentation, prior to April 1st each year, to Commission Staff regarding the performance of its current winter Hedging Activities, as well as the status of hedges for the upcoming two winter seasons.

Issued by: Brannon C. Taylor, VP Rates and Regulatory Affairs **Effective Date: [INSERT DATE]**
Date Issued: [INSERT DATE]

T.R.A. No. 1
3rd Revised Sheet No. 36
ATMOS ENERGY CORPORATION Cancelling 2nd Sheet No. 36

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PURCHASED GAS ADJUSTMENT RIDER (Continued)

II. Definitions.

A. "Gas Costs" -- shall mean the total delivered cost of gas paid or to be paid to Suppliers, including, but not limited to, all commodity/gas charges, approved costs associated with hedging activities, demand charges, peaking charges, surcharges, emergency gas purchases, over-run charges, capacity charges, standby charges, gas inventory charges, minimum bill charges, minimum take charges, take-or-pay charges and take-and-pay charges (except as provided below), storage charges, service fees and transportation charges and any other similar charges which are paid by the Company to its gas suppliers in connection with the purchase, storage, hedging activities, or transportation of gas for the Company's system supply.

B. "Fixed Gas Costs" -- shall mean all Gas Costs based on the Company's right to demand gas or transportation on a daily or seasonal peak; but unless otherwise ordered by the Commission, shall not include other charges paid for gas reserve dedication (e.g., reservation fees and gas inventory charges), minimum bill charges, minimum take charges, over-run charges, emergency gas charges, take-or-pay charges or take-and-pay charges (all of which shall be considered commodity costs).

C. "Gas Charge Adjustment" -- shall mean the per unit amount billed by the Company to its customers solely for Gas Costs. The Gas Charge Adjustment shall be separately stated for firm customers and for non-firm customers.

D. "Suppliers" -- shall mean any person or entity, including affiliates of the Company, who locates, purchases, sells, stores and/or transports natural gas or its equivalent for or on behalf of the Company. Suppliers may include, but not be limited to, interstate pipeline transmission companies, producers, brokers, marketers, associations, intrastate pipeline transmission companies, joint ventures, providers of LNG, LPG, SNG, and other hydrocarbons used as feed-stock, other distribution companies and end-users.

E. "Computation Period" -- shall mean the twelve (12) month period utilized to compute Gas Costs. Such period shall be the twelve (12) month period ending on the last day of a month which is no more than 62 days prior to the filing date of a PGA.

F. "Demand Billing Determinants" -- shall mean the annualized volumes for which the Company has contracted with Suppliers as of the first day of the Filing Month.

G. "Commodity Billing Determinants" -- shall mean the total metered throughput, regardless of source, during the Computation Period, adjusted

Issued by: Brannon C. Taylor, VP Rates and Regulatory Affairs Effective Date: [INSERT DATE]
Date Issued: [INSERT DATE]

T.R.A. No.1

ATMOS ENERGY CORPORATION

5th Revised Sheet No.45.1
Cancelling 4th Revised Sheet No.45.1

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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 optimize its gas purchasing activities consistent with efficient operations and service reliability, and will provide for sharing of benefits or costs between the Company and the Company's customers. 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;

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

Gas Procurement Incentive Mechanism

The Gas Procurement Incentive Mechanism (the GPIM) 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 or costs from the GPIM will be shared between the Company's customers and the Company on a 75%/25%basis.

Capacity Management Incentive Mechanism

The Capacity Management Incentive Mechanism (the CMIM) is designed to encourage the Company to 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 or costs 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.

Issued by: Brannon C. Taylor, **VP Rates and Regulatory Affairs** **Effective Date:** [INSERT]