BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

IN RE:	)	
	)	
PETITION OF ATMOS ENERGY	)	
CORPORATION FOR APPROVAL	)	
OF A TENNESSEE HEDGING	)	**Docket No. 23-000026**
PROGRAM	)	

ATMOS ENERGY CORPORATION'S RESPONSES TO
CA'S INFORMAL FIRST SET OF DISCOVERY REQUESTS

Atmos Energy responds to the Consumer Advocate's Informal Discovery Requests as follows:

1-1. Refer to the Pre-Filed Direct Testimony of Shawn M. Audibert, p. 3. Mr. Audibert states that the Company "does not have a mechanism to recover any costs associated with hedges[.]" Please answer the following:

a. What specific hedging costs are included in the Company's Cost of Gas Rider?
b. What specific costs are excluded from the Company's Cost of Gas Rider?

RESPONSE:

The Company believes that the Company's Purchased Gas Adjustment Tariff needs to be modified to affirmatively include a statement allowing for the recovery of hedging transaction costs. As currently drafted, the Tariff only allows recovery of cost of gas paid to Suppliers and does not include any hedging costs in the relevant definitions. (2nd Revised Sheet No. 36 at II.A.). Proposed tariff sheet No. 43.1 (Exhibit SMA-1) lists the costs that would potentially be included in the Company's modified PGA Tariff (proposed modified tariff Sheet No. 36 of Exhibit SMA-2).

1-2. What hedging costs does the Company believe would not be recovered from ratepayers in either the Company's Cost of Gas Rider or through base rates via the ARM mechanism?

RESPONSE:

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1-3. Refer to the Pre-Filed Direct Testimony of Shawn M. Audibert, p. 4. Mr. Audibert states that the Company "will use a third-party advisor … to assist in the timing of hedges, volumes to hedge, and type of financial instrument." Why does the Company believe utilizing an outside vendor is necessary to acquire hedges? Why can such hedges not be acquired by internal gas supply experts at no incremental cost to ratepayers?

RESPONSE:

All hedging instruments are acquired by internal resources at no incremental cost to ratepayers. The third-party advisor is an independent expert in energy markets and provides advice on hedging plan execution (along with other gas supply issues). The third-party advisor also provides market research and information, as needed, on market fundamentals: supply, demand, forward forecasts, regional basis differentials and infrastructure. The market research and information provided is currently considered in making other gas supply decisions and is not limited solely to hedging decisions.

1-4. Quantify the estimated costs of utilizing a third-party vendor to acquire hedges. What percentage of the $4.0 million hedging transaction budget would be spent on the outside vendor?

RESPONSE:

Please see response to 1-02.

1-5. Winter Storm Uri produced extremely volatile prices which lasted for approximately one week, occurring during mid-month. Are hedging strategies available that would provide ratepayer protection for such price volatility that doesn't result in "high" prices during the first of the month? It is the Consumer Advocate's understanding that many hedges are based upon first-of-the-month pricing, which would not have reduced gas costs in February 2021 as a result of the temporary price spike. Please discuss.

RESPONSE:

The hedging program is designed to stabilize overall gas prices and protect against overall market price increases. The hedging program protects against a rise in first-of-month pricing and is not designed to protect against intra-month price spikes. Storage, although primarily utilized for operational reliability, is a valuable tool to help mitigate intra-month price spikes on a short-term basis.

1-6. Refer to the Pre-Filed Direct Testimony of Shawn M. Audibert, p 4. Mr. Audibert states that the Company would use "deferred premium call options." Explain how deferred premium call options would work.

RESPONSE:

With deferred premium call options, the premiums for call options are charged in the month in which the instrument settles, not in the month in which the instrument is executed. Therefore, the premium costs would be included in the Company's gas costs in the month in which the instrument was implemented to protect.

1-7. Explain the Company's designed source of gas to service its winter load split between the following:

a. Contracted pricing (i.e., confirm first-of-the-month pricing is used);
b. Storage withdrawals; and
c. Purchased gas acquired at daily spot market prices.

RESPONSE:

The Company plans by assuming 100% of the normal winter requirements for its customers will be met through a blend of storage withdrawals and baseload first-of-month

pricing. The plan is to utilize 90% of storage inventory each winter, with storage inventory beginning around 95% full and falling to 5% full by the end of winter. The targeted amount of volume remaining in storage at various dates is approximately as follows: Nov 30 85%, Dec 31 65%, Jan 31 40%, Feb 28 20%, Mar 31 5%. This storage withdrawal plan is then tailored for each storage account as necessary to consider any unique operational and contractual parameters. For each plan month, normal requirements less the planned storage withdrawals determine the remaining supply to be purchased as baseload first-of-month priced gas purchases. If customer usage exactly matches the normal winter requirements every day, there will be no need for daily spot market purchases; but this is an unlikely scenario.

Five days prior to each month, the winter plan is reviewed considering current forecasts for the upcoming month, storage positions, pipeline restrictions, and other pertinent factors. Appropriate adjustments are made at that time to the customer requirements, storage plan withdrawals, and baseload purchase quantities, being mindful of the monthly storage targets throughout the winter. As the month progresses, short term forecasts are reviewed at least daily (more frequently as conditions warrant). If forecast customer requirements increase above normal, day ahead "Gas Daily" purchases may be nominated and/or storage withdrawals increased. If forecast customer requirements decrease below normal (i.e., warmer than normal conditions), planned withdrawals can be cut, excess supply may be injected into storage, or baseload supply can be sold back. The blend of Gas Daily purchase and storage withdrawal adjustment is determined with consideration given

to market conditions/pricing, pipeline conditions, short and long term forecast expectations, system imbalances created by third parties, storage deliverability, etc.

1-8. What percentage of winter daily spot market purchases is forecasted to be covered under the deferred premium calls?

RESPONSE:

None. Please see response 1-5.

1-9. Refer to the Pre-Filed Direct Testimony of Shawn M. Audibert, Exhibit SMA-1. How was a $4.0 million cap determined to be the optimum spending level?

RESPONSE:

At the time of the filing Atmos Energy calculated the amount based on current options prices to protect 50% of winter normal purchases, which is the maximum hedge volume included in the proposed hedging program and is the standard percentage the Company generally uses in its other jurisdictions. The Company would only use the portion of the budget necessary to execute the hedging plan. It is likely that there will be years during which the Company will not utilize the full $4.0MM budget.

1-10. What accounting and/or ratemaking treatment is the Company seeking?

RESPONSE:

See response to 1-2. The Company believes the proposed and modified tariffs as presented in Exhibits SMA-1 and SMA-2 would provide the necessary accounting and ratemaking

treatment. As discussed above, the third-party advisor costs would be recovered through the ARM as allocated Shared Services O&M.

1-11. Absent this request, what is the support for the Company's conclusion that all gains/losses from hedging activity would fall under the incentive calculation?

RESPONSE:

Under 4th Tariff Sheet No 45.1, the commodity Gas Performance Incentive Mechanism (GPIM) refers to "the use of financial instruments or private contracts in managing gas costs", but the GPIM does not specifically exclude or include those costs in the calculations, making it unclear how and whether those costs could be captured through that mechanism. The Company's proposed modified tariff in Exhibit SMA-2 would remove the uncertainty by specifically including hedging costs under the PGA Rider's definition of "Gas Costs" and removing the confusing reference to "financial instruments or private contracts in managing costs" from the GPIM within the PBR Mechanism Rider.

Respectfully submitted,

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