

Exhibit No.:  
Issue: Policy, Rate Consolidation, Revenue  
Deficiency, Test Year  
Witness: John A. Paris  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Atmos Energy Corporation  
Case No.: GR-2006-\_\_\_\_  
Date Testimony Prepared: March 23, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. GR-2006-\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**JOHN A. PARIS**

**ON BEHALF OF**

**ATMOS ENERGY CORPORATION**

**March 2006**

In the Matter of Atmos Energy Corporation's Tariff )  
Revision Designed to Consolidate Rates and )  
Implement a General Rate Increase for Natural Gas ) Case No.  
Service in the Missouri Service Area of the Company. )

STATE OF )  
 ) ss  
COUNTY OF )

*John A. Paris*  
John A. Paris

*Learl Ann Simon*  
Notary Public - *State of Ky. at Large*

My commission expires: Sept. 26, 2009

**BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO.  
PREPARED DIRECT TESTIMONY  
OF  
JOHN PARIS.**

**On Behalf of  
ATMOS ENERGY CORPORATION**

**INTRODUCTION**

**Q. Please state your name, position and business address.**

A. My name is John Paris. I am President of the Mid-States and Kentucky Divisions of Atmos Energy Corporation (“Atmos” or “Company”). My business address is 2401 New Hartford Road, Owensboro, Kentucky 42303.

**Q. Please briefly describe your educational and professional background, and current responsibilities.**

A. I earned a Bachelor of Arts degree in History from Berea College in 1985. That same year, I became an operations aide for Western Kentucky Gas Company (“WKG”). WKG was acquired by Atmos in December of 1987 and is now Atmos’ Kentucky division. I had worked in a variety of jobs for WKG during summer recess while attending college. After joining the company full time in 1985, I held positions of increasing responsibility before being named Assistant District Manager of the Bowling Green District in 1993. I became the Southern Colorado District Manager for Atmos in 1995. In 1997, I was named Vice President of Operations for the Colorado Region. In that position, I was re-

1       sponsible for safety, maintenance, construction, and customer service to Atmos' Colo-  
2       rado customers. From 1999 to 2001, I was Chairman of the Atmos Marketing Council  
3       which has the responsibility for developing and executing the Company's utility market-  
4       ing strategy.

5               In 2001, I was named President of Atmos' Kentucky division and in February  
6       2005, my responsibilities were increased to include Atmos' Mid-States division. As  
7       President of Atmos' Mid-States and Kentucky divisions, I have responsibility for cus-  
8       tomer services, operations, regulatory and community relations and the financial per-  
9       formance of those divisions.

10   **Q.    Have you ever testified before this Commission?**

11   A.    No, but I have previously provided testimony before the Colorado Public Utilities Com-  
12       mission and the Georgia Public Service Commission in Atmos rate cases.

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

14   A.    My direct testimony has three primary purposes. First, I will provide an overview  
15       of Atmos' operations in the United States and in particular Missouri. Second, I will set  
16       forth the principal factors requiring Atmos to file this rate application and address some  
17       of the most important items Atmos is seeking in this docket. Finally, I will introduce the  
18       other witnesses who will be providing support for the requested rate increase and the pro-  
19       posed tariff changes.

20   **Q.    Can you provide the Commission with a general description and background of**  
21       **Atmos' natural gas distribution business in the United States?**

22   A.    Yes. Atmos is the largest pure natural gas distribution company in the United States. It  
23       delivers natural gas to approximately 3.1 million residential, commercial, industrial and

1 public-authority customers in twelve states. Atmos has seven gas utility operating divi-  
2 sions. They are located in Denver, Colorado (Kansas and Colorado division); Baton  
3 Rouge, Louisiana (Louisiana division); Jackson, Mississippi (Mississippi division); Lub-  
4 bock, Texas (West Texas division); Dallas, Texas (Mid-Tex division); and Franklin, Ten-  
5 nessee (Mid-States and Kentucky divisions).

6 Atmos' history dates back to 1906 in the panhandle of Texas. Over the years,  
7 through various business combinations and mergers, the company became part of Pioneer  
8 Corp., a large diversified West Texas energy company. In 1983, Energas Company, the  
9 natural gas distribution division of Pioneer and formerly known as Pioneer Natural Gas,  
10 was spun off and became an independent, publicly held natural gas distribution company.  
11 In October 1988, Energas changed its corporate name to Atmos Energy Corporation and  
12 began trading on the New York Stock Exchange.

13 Since 1986, Atmos has completed numerous significant acquisitions. In 1986,  
14 Atmos expanded its natural gas distribution business to Louisiana with the acquisition of  
15 Trans Louisiana Gas Company. In 1987, Atmos further expanded its operations by mov-  
16 ing into Kentucky with the acquisition of Western Kentucky Gas Company. In 1993,  
17 Atmos acquired Greeley Gas Company's Kansas, Colorado and Missouri operations and,  
18 in 1997, it acquired United Cities Gas Company, which operated in eight states including  
19 Missouri. Atmos acquired the Missouri assets of Arkansas Western Gas Company  
20 known as Associated Natural Gas Company in 2000 and, in 2001, it completed its pur-  
21 chase of the assets of Louisiana Gas Service Company and LGS Natural Gas Company.  
22 This Commission approved the acquisitions of Greeley Gas Company, United Cities Gas  
23 Company and Associated Natural Gas Company. In December of 2002, Atmos expanded

1 its operations into Mississippi with the acquisition of Mississippi Valley Gas Company.  
2 Most recently, in 2004, Atmos acquired the natural gas distribution and pipeline opera-  
3 tions of TXU Gas Company from TXU Corp. The operations acquired in this transaction  
4 serve approximately 1.5 million customers in the Dallas-Forth Worth metroplex and  
5 more than 500 other communities in north and central Texas.

6 Atmos' corporate offices are located in Dallas, Texas, and provide services such  
7 as accounting, legal, human resources, rates administration, procurement, information  
8 technology, and a customer support center. These centralized services are shared with  
9 the other Atmos operating divisions in order to avoid having to staff and maintain these  
10 functions at each division level. These centralized services are the technical and adminis-  
11 trative services that would be required if each division was a stand-alone company today.  
12 Atmos believes that this structure gives it an economic advantage and enables it be a low-  
13 cost, high-quality service provider of natural gas. Each of the Company's seven utility  
14 divisions has its own divisional office that is responsible for the day-to-day operations of  
15 that division.

16 **Q. Can you provide the Commission with a general description and background of**  
17 **Atmos' operations in Missouri?**

18 A. Yes. Atmos' Mid-States Division, in addition to serving customers in Missouri, provides  
19 natural gas distribution service in Tennessee, Virginia, Georgia, Illinois and Iowa. The  
20 Mid-States division provides natural gas service to approximately 311,000 customers  
21 across those six states. Regional and state offices for the Missouri operation are located  
22 in Hannibal, Jackson and Sikeston.

1           Atmos serves approximately 60,000 customers in Missouri. The customer base  
2 includes residential, commercial and industrial customers. We have a Missouri-based  
3 work force of approximately 75 employees. Our utility plant in Missouri includes over  
4 2,150 miles of transmission and distribution lines. The most significant change to our  
5 Missouri operation since our last rate case is the acquisition of the Missouri utility prop-  
6 erties of Associated Natural Gas (ANG) in 2000. I have included a map of Atmos' Mis-  
7 souri service territory as Schedule JP-1.

8 **Q. When was the Company's last request for a rate increase filed with the Commis-**  
9 **sion?**

10 A. The Company's last rate increase request in Missouri was filed in 1994 by United Cities  
11 Gas Company prior to its acquisition by Atmos and new rates were approved and imple-  
12 mented in 1995. The amount of the increase was \$903,000. The last rate increase affect-  
13 ing the utility properties the Company acquired from ANG was filed, approved and im-  
14 plemented in 1997. The amount of the increase granted to ANG was approximately \$1.5  
15 million. The Company makes every effort to provide service as efficiently as possible  
16 and it is proud of its well-deserved reputation as one of the lowest cost providers of natu-  
17 ral gas in the United States. Because of its continual efforts to provide the highest quality  
18 service to its customers at the lowest possible cost, the Company has been able to operate  
19 in Missouri without increased rates since 1995, and without increased rates with respect  
20 to the Missouri properties acquired from ANG in 2000. Since the last UCG rate case, the  
21 Company has invested more than \$22 million in direct Missouri gross plant, including  
22 additions since the acquisition of the ANG service areas. Atmos has also made signifi-  
23 cant technological investment in Shared Services general plant such as the customer call

center and billing system since its last rate case. The total allocated gross plant from Shared Service to Missouri is \$2.7 million. However, as explained in my testimony, as well as the testimony of the other Atmos witnesses in this case, the Company now requires an increase in rates.

**Q. Please discuss the Company commitment to serving its Missouri customers?**

A. Over the past several years the Company has made a substantial investment to ensure that it provides the best customer service possible. To demonstrate this commitment, the Company has introduced and implemented state-of-the-art technology to enable it to provide customers with the best possible service at the lowest possible cost. These enhancements facilitate customer service through the streamlining of billing inquiries and service orders, allow efficient billing and processing of customer payments and provide support to the Company's Customer Support Center. This technology provides ratepayers with many benefits including, but not limited to:

- Availability of customer service representatives 24 hours a days a week.
- Enhanced ability to respond quickly to leaks and other safety related events.
- More accurate bills.
- Faster response to service requests.
- More efficient use of labor and materials
- Ability for customers to make check and credit card payments by telephone or payments using bank drafts
- Enhancements to Company's ability to monitor the quality of its customer service.

**Q. What is the purpose of this application?**



1 A. As noted, the Company has not received a rate increase in Missouri since 1995 and no  
2 rate increase impacting the former ANG properties has been received since 1997. Prompt  
3 and adequate rate relief is essential if we are to continue to provide high-quality, safe and  
4 reliable service to our customers and achieve a reasonable rate of return. Our present  
5 rates fall short of providing sufficient revenues to meet these requirements.

6 While Atmos continually makes every effort to control its expenses, a portion of  
7 the increase is necessary to cover increased costs for items such as salary and wage in-  
8 creases, increased medical costs and higher pension benefits. The increase to the bill of  
9 an average residential customer at current gas prices would be \$4.68 per month. I be-  
10 lieve that is an extraordinarily modest rate increase considering the fact that the current  
11 rates have been in effect for so long. It is even more remarkable in light of the fact that  
12 inflation over the period since the last rate increase has been approximately 30%, and the  
13 Company has invested more than \$66 million (including ANG) in its Missouri operations  
14 during that period.

15 **Q. Are there any elements of this filing which you would like to discuss in greater de-**  
16 **tail?**

17 A. Yes. The Company is requesting that it be authorized to implement a Weather Normali-  
18 zation Adjustment (“WNA”) Rider. A WNA Rider eliminates the effects of abnormal  
19 weather on customer bills and the Company’s earnings.

20 During the process of rate design, a utility’s authorized revenue is distributed to a  
21 fixed month customer charge component and a component tied to natural gas distribution  
22 volumetric through-put for each customer class. The majority of non-gas costs borne by  
23 a utility, and correspondingly its revenue requirements, are fixed and are basically unaf-

1        fected by the volumes sold or transported. Therefore, as annual volumes drop below the  
2        weather-normalized rate case volumes upon which the revenue requirements were di-  
3        vided, the utility under-recovers its authorized non-gas cost revenues. On the other hand,  
4        higher annual volumes result in non-gas revenues above the established revenue require-  
5        ment. The WNA Rider addresses the affects of weather upon variances in volume and,  
6        because the Commission designs rates based upon normal weather and the Company has  
7        no control over the weather, the WNA Rider is a logical extension of that methodology.  
8        The benefit of the WNA Rider is that neither the customer nor the Company bears an ad-  
9        vantage or disadvantage as a result of abnormal weather variances during any heating  
10       season. The Company currently has WNA mechanisms in place in Kansas, Kentucky,  
11       Georgia, Tennessee, Virginia, Mississippi and West Texas. Company witnesses Gary  
12       Smith and James Cagle address the WNA Rider in their testimony.

13       Atmos is also requesting approval to recover gas costs included in uncollectible accounts  
14       through its PGA tariff. The Company is currently authorized to recover a certain amount  
15       for uncollectible accounts in base rates. This amount includes both the gas and non-gas  
16       portion components of the uncollectible accounts. No other component of gas cost is in-  
17       cluded in base rates and all other components of gas costs are collected through the PGA.  
18       Because the PGA is not utilized for recovery of uncollectible gas costs, Company will in-  
19       evitably either under collect or over collect these costs because they can never been esti-  
20       mated with complete accuracy, particularly given the recent volatility in gas costs. It is  
21       the Company's position that the cost of purchased gas remains a gas cost regardless of  
22       whether it is collected or goes uncollected and therefore, should be recovered through the

1       PGA instead of base rates. Company witness Patricia Childers addresses this issue in her  
2       testimony.

3       In addition, Atmos is requesting approval to partially consolidate its rates. Currently, the  
4       Company has six different base rates and PGA's in Missouri. This is primarily a result of  
5       the fact that Atmos has acquired its Missouri service territory in three separate acquisi-  
6       tions. Several different consolidation scenarios were evaluated, and the Company deter-  
7       mined that a partial consolidation was the most appropriate at this time. Therefore, the  
8       Company is proposing that the six rate areas be consolidated into three rate areas; that the  
9       PGA be consolidated into one statewide rate; and that there be one statewide customer  
10      charge and one set of statewide service charges. Company witness Patricia Childers fully  
11      addresses rate consolidation in her testimony.

12   **Q.   Are there any other changes to existing tariffs or additional tariffs requested in this**  
13   **proceeding?**

14      Yes. The Company is requesting authority to change the monthly customer charges and  
15      charges applicable to monthly consumption. These changes are discussed in the testi-  
16      mony of Company witness Patricia Childers. The Company is also requesting authority  
17      to implement an activation charge of \$30.00 applicable to all rate schedules, and which is  
18      addressed in the testimony of Company witness Michael Ellis. The Company further re-  
19      quests authority to make certain changes to its general services rules which are also ad-  
20      dressed in the testimony of Mr. Ellis.

21   **Q.   Are there other aspects of the filing that you would like to address?**

22   A.   Atmos is requesting Commission authorization to implement an Economic Development  
23      Rider to encourage industrial expansion and economic development in the Company's

1 Missouri service area by offering incentive type rates. This rate is similar to that offered  
2 by Missouri Gas Energy. The Company also proposes to make certain changes to its  
3 transportation tariff which will implement monthly cash out procedures, add daily sched-  
4 uling fees and establish operational flow orders, all of which are designed to ensure that  
5 transport customers take their nominated volumes and deter swings on distribution sys-  
6 tem supply. In addition, the Company proposes to implement a pooling service which  
7 will enable a transportation customer group with a common supply marketer, which we  
8 refer to sometimes as a “pool,” to aggregate their transport volumes in order to minimize  
9 potential cash out charges and operational flow order penalties.

10 The Company also proposes to revise its current main extension policy, which al-  
11 lows for 150 feet of 2-inch main free of charge, to one which requires a feasibility study  
12 for each proposed main extension. The benefit of this change is that it will shift the pri-  
13 mary burden for the investment to the customer requesting service and away from exist-  
14 ing customers and ratepayers.

15 All of the proposed changes discussed above are more particularly addressed in  
16 the testimony of Company witness Robert Kerley.

17 **Q. What is the amount of the rate increase that Atmos is seeking in this rate applica-**  
18 **tion?**

19 A. Atmos is seeking approval to increase its rates to recover approximately \$3.396 million in  
20 additional revenues.

21 **Q. What rate of return on rate base is Atmos requesting in this rate application?**

1 A. Atmos is asking the Commission to approve new rate schedules that would increase  
2 revenues to provide an overall rate of return on rate base of 8.59% on the test year  
3 rate base of \$56.0 million.

4 **Q. Is Atmos currently earning a fair return on its Missouri Operations?**

5 A. No. Although Atmos operates very efficiently, it is not achieving a fair return on its  
6 investments with the rates in effect during the test period. Atmos' present calculated rate  
7 of return on rate base is only 4.89%.

8 **Q. What is the rate of return on common equity requested in this rate application.**

9 A. The requested rate of return on common equity in this case is 12%. Dr. Don Murry  
10 will testify to the requested rate of return.

11 **Q. Please identify the other witnesses sponsoring testimony in this proceeding?**

12 A. In addition to my testimony, Atmos will present the direct testimony and exhibits of 12  
13 witnesses. Ms. Rebecca M. Buchanan, Senior Rate Analyst with Atmos, will sponsor the  
14 Missouri jurisdictional rate base, cost of service, return on rate base and revenue defi-  
15 ciency and, in support of the calculations therefore, she is sponsoring [Schedules RMB-1  
16 through RMB-10].

17 Ms. Patricia Childers, Vice President Rates and Regulatory Affairs for Atmos'  
18 Mid-States Division, supports Atmos' request to recover the gas cost portion of uncol-  
19 lectibles through the PGA, Atmos' request to partially consolidate rates and the PGAs for  
20 the six Missouri rate areas, and the Company's proposed change to its customer charge.  
21 In addition, Ms. Childers' testimony addresses the minimum filing requirements for the  
22 case. [Schedules PJC-1 through PJC-3]

1           Mr. James C. Cagle, Atmos' Manager of Rates and Revenue Requirements, will  
2           sponsor the proposed WNA mechanism, reconciliation of test year revenues to bill fre-  
3           quency revenues, cost allocation for ratemaking purposes and the adjustment to accumu-  
4           lated deferred income tax. [Schedules JCC-1 through JCC-3]

5           Mr. Gary Smith, Vice President Marketing and Regulatory Affairs for Atmos'  
6           Kentucky division provides testimony in support of the Company's proposal to imple-  
7           ment the WNA mechanism. [Schedules GLS-1 through GLS-2]

8           Mr. Thomas H. Petersen, Director of Rates for Atmos, provides testimony which  
9           presents the Company's lead-lag analysis of cash working capital requirements to be in-  
10          cluded in rate base. Mr. Peterson is sponsoring Schedules 1 through 7 which show the  
11          supporting calculations for the lead-lag analysis. [Schedules THP-1 through THP-9]

12          Ms. Laurie M. Sherwood, Atmos' Vice President, Corporate Development and  
13          Treasurer, sponsors the Company's proposed capital structure for use in setting rates in  
14          this proceeding.

15          Mr. Robert Kerley, Manager of Sales for the Mid-States Division, presents testi-  
16          mony to support new charges or changes to existing utility related transportation charges  
17          and services. He also sponsors special contracts with two industrial customers served by  
18          the Company in Missouri. [Schedules RVK-1(HC) and RVK-2(HC)]

19          Mr. Michael Ellis proposes adding language to the tariff and service rules that  
20          would permit the Company to implement an activation charge, modify the tariffs to make  
21          the late payment fee the same for all customers, change the interest rate on deposits and  
22          increase the fee for customer checks that are returned for non-sufficient funds. [Schedules  
23          MHE-1 through MHE-2]

1 Mr. Daniel M. Meziere, Director of Accounting Services for the Company, spon-  
2 sors the historical books and records as well as the property unit catalog required by 4  
3 CSR 240-3.235. [Schedules DMM-1 through DMM-2]

4 Donald S. Roff, President, Depreciation Specialty Resources, Dallas, Texas pre-  
5 sents a depreciation study he conducted at the request of Atmos and the impact of that  
6 study on the Company's rate request. [Schedules DSR-1 through DSR-3]

7 Dr. Donald A. Murry of C.H. Guernsey & Company, Oklahoma City, Oklahoma,  
8 testifies regarding Atmos' cost of capital and recommends a rate of return that is appro-  
9 priate to be used in setting rates for Atmos in this proceeding. [DAM-1 through DAM-  
10 29]

11 Ronald Edelstein, Director, State Regulatory Programs with the Gas Technology  
12 Institute (GTI), presents the benefits that Missouri natural gas consumers receive from  
13 GTI and its gas consumer benefits research and development program (R&D), and rec-  
14 ommends that Atmos be granted authority to fund natural gas consumer benefits R&D.  
15 [Schedule RE-1]

16 **Q. Do you have any closing remarks?**

17 A. Yes. It is my opinion that the rates requested in this filing are just, reasonable, and in the  
18 public interest and I would encourage the Commission to provide prompt and adequate  
19 rate relief. In addition, I believe that it is particularly critical that the Company's request  
20 to implement its WNA Rider be granted if it is to continue to provide the level of service  
21 that its customers have come to expect.

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

23 A. Yes.

## Atmos Energy Missouri Service Area

