

Part I

Louisiana Public Service Commission

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March 4, 2021

**VIA HAND DELIVERY**

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***Docket No. U-35708, Louisiana Public Service Commission, ex parte. In re: Audit of Purchased Gas Adjustment Filings for Atmos Energy-Louisiana Division (a Regulatory Division of Atmos Energy Corporation) for the Period of April 2018 Through March 2020.***

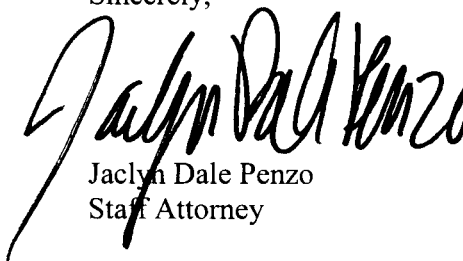
Dear Ms. Bordelon:

Attached for filing is the public version of the *Report of the Staff of the Louisiana Public Service Commission*, including Exhibits. The confidential version has been filed under seal. An incomplete affidavit signed by Commission consultant William J. Barta is included; however, the affidavit is not notarized because of limitations due to the COVID-19 pandemic. Staff will supplement the filing with an executed original affidavit as soon as practicable.

Please publish the public version in the Commission's next Official Bulletin. Staff is requesting a 15-day intervention period.

Please do not hesitate to contact me if you have any questions concerning this filing.

Sincerely,



Jaclyn Dale Penzo  
Staff Attorney

Encl.  
cc: Service List

**BEFORE THE  
LOUISIANA PUBLIC SERVICE COMMISSION**

**AUDIT OF PURCHASED GAS ADJUSTMENT FILINGS )  
FOR ATMOS ENERGY-LOUISIANA DIVISION )  
(A REGULATORY DIVISION OF ATMOS ENERGY ) DOCKET NO X-35708  
CORPORATION) FOR THE PERIOD OF APRIL 2018 )  
THROUGH MARCH 2020. )**

**REPORT OF THE STAFF OF THE LOUISIANA PUBLIC SERVICE COMMISSION**

**MARCH 4, 2021  
PUBLIC VERSION**

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LA PUBLIC SERVICE  
COMMISSION**

**PREPARED AND SUBMITTED BY:**

**HENDERSON RIDGE CONSULTING, INC.  
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## 1. SUMMARY

The Louisiana Public Service Commission (“LPSC” or the “Commission”) authorized a Purchased Gas Adjustment (“PGA”) audit of Atmos Energy Corporation’s (“Atmos,” or the “Company”) Louisiana Division monthly filings that are to be submitted under the requirements of the Commission’s General Order dated March 24, 1999 (Order No. U-22407) (the “1999 General Order”). At the October 14, 2020 Business and Executive Session, the Commission voted to retain Henderson Ridge Consulting, Inc. to assist the Commission Staff (collectively “Staff”) in the examination of the Louisiana Division’s monthly PGA filings for the audit period of April, 2018 through March, 2020.

Atmos, through its Distribution Segment, is the United States’ largest natural gas-only distributor serving over 3 million customers in over 1,400 communities in eight states. Atmos has six regulatory divisions, including the Louisiana Division.<sup>1</sup> The Louisiana Division serves approximately 354,000 customers in 273 communities and has approximately 8,500 miles of distribution pipe located in 49 parishes within the state. During the twenty-four-month audit period, the Louisiana Division recovered \$168.8 million in revenues through the PGA mechanism while incurring actual purchased gas costs of \$172.3 million on a sales volume of approximately 38.5 million MCF.

Staff examined each area of the Louisiana Division’s monthly PGA filings in order to confirm the accuracy of the information presented in each schedule and to verify that the amounts reconciled to the supporting documentation provided by the Company as part of the monthly filing or in response to Staff discovery. Staff also evaluated Atmos’ compliance with the requirements of the Commission’s 1999 General Order as well as other Commission Orders which the Louisiana Division is subject to. In addition, Staff reviewed the reasonableness of Atmos’ forecasting methodologies to project customer demand and its gas procurement practices. Other analyses were conducted to examine how close the projected PGA rate charged customers each month tracked

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<sup>1</sup> The Louisiana operations of Atmos Energy Corporation previously included two rate divisions: Trans Louisiana Gas (“TLA”) and Louisiana Gas Service (“LGS”). The Commission approved the consolidation of the former two rate divisions. See LPSC Docket No. U-35122: Application of Atmos Energy Corporation Requesting Consolidation of Atmos Energy Corporation’s Louisiana Rate Divisions, Trans Louisiana Gas and Louisiana Gas Service and Related Amendments to Rate Schedules and Tariffs, filed February 15, 2019.

the actual purchased gas costs incurred by the Louisiana Division and whether the actual costs were in line with the New York Mercantile Exchange (“NYMEX”) Index price.

As discussed in greater detail throughout this PGA Audit Report, Staff finds that the costs incurred and recovered by Atmos during the audit period were reasonable, prudent, and necessary for the provision of service to its customers. Staff finds that the monthly PGA filings complied with the requirements of the 1999 General Order and other relevant Commission Orders. Staff did not identify any ineligible costs that were passed through the PGA mechanism for recovery. As a test of reasonableness, Staff finds that the commodity prices for purchase gas paid by Atmos tracks the monthly NYMEX closing price. Based upon its examination and extensive analyses, Staff recommends that the Commission find that the costs included for recovery through the Louisiana Division’s monthly PGA filings are reasonable and approve the Company’s filings as submitted under the requirements of the 1999 General Order.

## **1.1 Organization of Report**

The Staff Audit Report consists of nine sections. Section 1 provides an overview of the Audit Report and a summary of Staff’s Findings and Recommendations. Section 2 provides the corporate profile of Atmos, relevant statistics of the Louisiana Division, and an overview of Atmos’ gas forecasting methodologies and procurement policies. Section 3 discusses the Commission’s requirements for a gas utility’s recovery of its purchased gas costs. Section 4 reviews the Rate Stabilization Program (“RSP”) and hedging practices of Atmos during the audit period. Section 5 provides detail on the Asset Management Plan (“AMP”) that Atmos has entered into with its affiliate, Trans Louisiana Gas Pipeline, Inc. (“TLGP”). Section 6 examines the affiliate transactions that affected the cost of purchased gas during the audit period. Section 7 discusses the schedules that are required to be submitted by the Louisiana Division and notes the exceptions to those schedules that were identified in the course of the audit examination. Section 8 reviews the Company’s compliance with the requirements of the Commission’s 1999 General Order. Section 9 presents Staff’s recommendation to the Commission.

## **1.2 Staff Findings and Recommendations**

### Methodologies to Forecast Customer Demand

Staff reviewed the forecasting methodologies applied by Atmos to project customer demand. The Company uses Time Series linear regression models to prepare the forecasts. The linear regression model relates energy use to weather variables, Heating Degree Days (“HDD”), wind, day-of-the-week variables, and monthly variables. The Atmos models use only winter data since this data provides the best estimates of the impact of extreme weather on energy use. Staff finds that the approach of Atmos is based upon industry standard forecasting methodologies and leads to a reasonable projection of customer demand. Furthermore, the forecasts help minimize the amount of excess capacity contracted with each supplier.

### Rate Stabilization Program

The Commission’s 1999 General Order provides uniform guidelines for Purchased Gas Adjustment clauses and encourages gas local distribution companies (“LDCs”) to implement commodity procurement and financial mechanisms to stabilize gas rates. As part of the compliance review conducted in this audit, Staff confirmed the accuracy of the hedging activity reported in the monthly PGA filings submitted by the Louisiana Division and, through Staff discovery, the Company provided supplemental documentation concerning the volumes and costs in support of the amounts presented in those schedules. Staff finds that as a result of the Atmos hedging program, winter period price volatility was reduced by nearly 43% of normal gas requirements. The hedging approach adopted by Atmos is systematic rather than speculative and the quantities that were hedged were consistent with the planned quantities. Staff finds that the Rate Stabilization Program as executed by Atmos is consistent with the requirements of the relevant Commission Orders and achieved the goal of reducing PGA rate volatility.

### Affiliate Transactions

Atmos has two contracts in place with its affiliate TLGP. The contracts with TLGP have been entered into to assist in the overall gas planning, procurement, and delivery process. The monthly affiliate transactions were examined in detail as part of the audit in order to verify that they represented arms-length transactions and did not harm the ratepayers of the Louisiana

Division. Atmos has the AMP and a No-Notice Pipeline Service Agreement (“NNS Agreement”) in place with TLGP. Both agreements remain in effect.

Staff confirmed that the monthly demand charges of TLGP, including the implementation of scheduled escalations, were in compliance with the Monthly Demand Charges approved by the Commission in a separate proceeding. In addition to extending the Escalation Cap on the TLGP Monthly Demand Charge, the Commission also set a limit on the Escalation Cap relative to the Gulf South Pipeline Company, LP (“Gulf South”) NNS Tariff Rate. Staff verified that the TLGP Monthly Demand Charge did not exceed the Gulf South NNS Tariff Rate during any month in the audit period. Staff also confirmed that the cost/MMBtu for purchases from TLGP were consistent with the monthly NYMEX closing price. With respect to sales to TLGP, the price paid by TLGP exceeded the monthly NYMEX closing price. Based upon external market data and the Company’s compliance with the requirements of Commission Orders, Staff finds that the Louisiana Division’s dealings with TLGP represent arms-length transactions.

#### Sales to Special Contract Customers

Atmos provided service to special contract customers during the audit period. The special contract customers include: (1) the Winn Parish Prison, (2) the Bayou Correctional Center, (3) the VA Hospital, (4) Northwestern State University, and (5) the University of Louisiana – Lafayette. In a prior PGA audit, Staff recommended that sales to TLGP and special contract customers be made at the applicable Weighted Average Cost of Gas (“WACOG”) for all monthly and daily purchases.<sup>2</sup> Atmos implemented Staff’s recommendation beginning with the month of July, 2016. As part of the current PGA audit, the monthly sales to the special contract customers were reviewed in order to verify that the sales were made at the applicable WACOG for the delivering pipeline. Staff found no exceptions in its review of the monthly sales to special contract customers.

#### Review of the Monthly PGA Filings

Pursuant to the 1999 General Order, Group I LDCs must submit a series of schedules in support of the monthly PGA rate that is to be charged to customers. The total PGA rate charged to gas utility customers consists of a demand component and a commodity component. The

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<sup>2</sup> See Report of the Commission Staff, Docket No. X-33480, May 2016.

demand component includes a charge for storage or transportation service on estimated peak hourly, daily, or monthly gas usage of the customer(s). The commodity component reflects the total costs of the natural gas based upon the quantity purchased. The individual PGA schedules, in turn, are designed to capture and present detailed information on the components of the projected PGA rate charged customers and the actual costs incurred by the LDC.

Staff examined each schedule of the Louisiana Division's monthly PGA filings for each month of the audit period. Staff verified the accuracy of the amounts presented in each schedule, traced and confirmed the accuracy of the amounts forwarded to lead schedules from supporting schedules, and reconciled actual costs to source documentation (i.e. vendor invoices and other supporting documentation). Staff also conducted analyses in order to evaluate the reasonableness of the actual costs incurred by Atmos as compared to external market data. The compliance of the Louisiana Division with the requirements of other Commission Orders that are specific to the PGA cost recovery was also verified by Staff.

In its review of the monthly PGA schedules, Staff found several exceptions with the information presented in the "A" Schedules. The exceptions are related to the forwarding of the over/(under) collection amortization factor from Schedule C-1-A to Schedule A-1. Atmos did not forward the over/(under) collection amortization rate as calculated in Schedule C-1-A to Schedule A-1 for the months of May 2018 through October 2018 and the months of April 2019 through October 2019. The failure to forward the amortization rate for these months of the audit period affected the determination of the monthly Projected Gas Adjustment rate.

Although the monthly PGA rate is affected by forwarding – or not forwarding – the over/(under) collection amortization factor, the customers of Atmos are actually not adversely impacted over the long-term by the failure to apply the amortization factors in the PGA filing months. The over/(under) collection amortization factor serves as an on-going true-up mechanism that is designed to minimize the cumulative over/(under) collection balance. Thus, any shortfall or overage that is the result of not applying the over/(under) collection amortization factor in a particular month will either increase or reduce the cumulative balance that is eventually amortized with the subsequent calculation of the over/(under) collection amortization factor.

In the PGA filing months when the over/(under) collection amortization factor was not forwarded to Schedule A-1, Staff has calculated that the net effect on the cumulative balance was an under-recovery of revenues by Atmos of \$82,780, including interest.

#### Compliance with the Commission's 1999 General Order

The Commission's 1999 General Order outlines the types of costs that are eligible for recovery through the PGA mechanism and those that are ineligible or fall outside the recovery mechanism. Vendor source documentation was examined, as well as other documentation, to determine whether any of the ineligible costs identified in the 1999 General Order were inappropriately included in the monthly PGA filings. The Staff audit of the monthly PGA filings and supporting documentation found no evidence of ineligible costs being passed through for recovery from ratepayers and/or costs that would be more appropriate to recover through base rates.

The Staff audit also finds that the Louisiana Division has complied with the requirements of the 1999 General Order with respect to the calculation of the Lost and Unaccounted-for Gas and Use Factor ("LUGF"). As required by the 1999 General Order, Atmos applied an updated annual factor based upon a three-year average of actual experience throughout the audit period. In addition, the LUGF ratio fell well short of the 6 percent allowed under the 1999 General Order.

The 1999 General Order requires utilities to monitor the over/(under) recovery of purchased gas costs and provide a true-up of actual recoverable costs to actual revenues based solely upon its Louisiana jurisdictional sales. The 1999 General Order also specifies that an annual reconciliation be adopted in order to mitigate the fluctuation in PGA rates which may arise if a shorter (i.e. monthly) period is used. The accuracy of the components of Schedule C-1-A was verified for each month of the audit period and, as mentioned above, several exceptions were identified.

The 1999 General Order requires that the over/(under) recovery calculation include interest on the balance existing at the end of each month. The applicable interest rate is the prime bank lending rate that is published in the Wall Street Journal on the last business day of each month. The Staff audit finds that Atmos provided the documentation in support of the appropriate interest rate to be applied to the cumulative over/(under) recovery balances in each monthly PGA filing.

The accuracy of all calculations, including the interest on the cumulative balances, was verified for each month in the audit period. Staff did not find any exceptions to the amounts presented in the PGA schedules.

### Compliance with Reporting Requirements

The 1999 General Order requires that the information provided by gas utilities in their PGA filings should be sufficiently detailed to permit the Commission, its Staff, and other interested parties to determine the type of costs, the quantity purchased, the total and per unit costs, the over and under collection adjustment, carrying charges, lost and unaccounted-for gas and use percentages, changes in the costs, prior approvals, proposed exceptions, and uncertainties. Staff found that the Louisiana Division satisfied the above objective throughout the audit period by accurately completing the required schedules in its monthly PGA filings. The completed schedules and supporting documentation readily provide an interested party with the information necessary to conduct a thorough review of the projected and actual costs and quantities on a per unit basis. Staff's opinion is that the monthly PGA filings submitted by Atmos provide adequate source documentation to support the actual demand and commodity component costs incurred by the Louisiana Division during the audit period.

### Recommendation

Staff recommends that the Commission find that the costs included for recovery through the monthly PGA filings of the Louisiana Division are reasonable and approve the filings as submitted under the requirements of the 1999 General Order.

## **2. ATMOS ENERGY CORPORATION PROFILE AND OVERVIEW OF GAS OPERATIONS**

### **2.1 The Organizational Structure of Atmos Energy Corporation**

Atmos is headquartered in Dallas, Texas and is incorporated in Texas and Virginia. As of September 30, 2020, the consolidated operations of Atmos are managed through two reportable segments: (1) Distribution Segment – Atmos is the nation's largest natural gas-only distributor serving over three million customers in over 1,400 communities in eight states and (2) Pipeline and Storage Segment – the segment consists of the pipeline and storage operations of Atmos Pipeline-Texas Division and the natural gas transmission operations in Louisiana. The pipeline

and storage operations in Louisiana are comprised of a 21-mile pipeline located in the New Orleans area and a 13-mile pipeline in northwest Louisiana that is primarily used to aggregate gas supply for the Louisiana Division under a long-term contract and, on a more limited basis, to third parties. The demand fee charged to the Louisiana Division for these services is subject to regulatory approval by the Commission. A corporate organizational chart is provided in Exhibit No. 1.

The Distribution Segment consists of six regulatory divisions, including the Louisiana Division. Table 1 presents the service areas, the communities served, and the number of customer meters for each regulatory division of Atmos.

**Table 1**  
**Atmos Energy Corporation**  
**Regulatory Divisions**

<u>Division</u>	<u>Service Areas</u>	<u>Communities</u>	<u>No. of Meters</u>
Mid-Tex	Texas		
	Metroplex	550	1,751,898
Kentucky-Mid-States	Kentucky		182,639
	Tennessee		156,820
	Virginia	230	24,493
Louisiana	Louisiana	270	368,332
West Texas	Amarillo		
	Lubbock		
	Midland	80	320,085
Mississippi	Mississippi	110	267,482
Colorado-Kansas	Colorado		
	Kansas	170	138,009

*Source:*

*Atmos Energy Corporation, Form 10-K for the fiscal year ended September 30, 2020.*

## **2.2 The Louisiana Division Service Territory and Customers Served**

The Louisiana Division serves approximately 365,000 customers in 273 communities. The Louisiana Division has approximately 8,500 miles of distribution pipe located in 49 parishes. During the audit period, the Louisiana Division contracted for capacity in pipelines, storage, no-

notice transportation, and delivered to city gate supply/pipeline/storage. Table 2 presents the number of customers served during the audit period and the MCF sales by customer class.

**Table 2**  
**Atmos Energy Corporation**  
**Louisiana Regulatory Division**  
**Number of Customers and MCF Sales**

<u>Year</u>	<u>Average Number of Customers</u>			<u>MCF Sales</u>		
	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
2019	330,294	21,249	351,543	12,364,524	7,253,202	19,617,726
2020	332,297	21,176	353,473	11,798,768	7,151,965	18,950,733

### 2.3 Overview of Gas Operations – Forecasting Demand and Procurement Policies

The gas procurement function is performed by the Senior Gas Supply Representative and the Manger of Gas Supply and Services. The Gas Supply Representative uses a seasonal gas supply requirement plan for each pipeline system based upon current load studies to determine the supply needs each month. Each plan reflects normalized seasonal requirements – winter (November-March) and summer (April-October). The plans consist of monthly forecasted commodity purchases and storage withdrawals and/or injections. Baseload purchases are due to the supplier 48 hours before the next month’s NYMEX contract settles.

On a daily basis, a short term of 1 to 7 days load forecast model is used to forecast daily throughputs. The forecasting model input includes daily weather forecasts and utilizes historical data. The short-term load forecast is updated and analyzed on a daily basis to plan the next day(s) gas supply and storage requirements. This load forecast provides the necessary information to determine if current flowing gas along with available storage volumes are adequate, deficient or in excess for meeting the next day(s) forecasted requirements.

On a daily basis, the forecast model is reviewed and decisions are made based upon the following results:

- In the event the next day forecast is greater than the first of month (“FOM”) flowing gas plus desired storage withdrawals, incremental gas is purchased to accommodate the difference.

- In the event storage is being utilized substantially more than planned utilization, incremental purchases are made to limit monthly withdrawals.

When changes are made to the next day's flowing gas quantities, suppliers are notified no later than 8:00 AM the day prior to any nomination changes (8:00 AM Friday for any Saturday through Monday changes; if a holiday is on Monday, then changes must be made on Friday morning for Saturday through Tuesday).

As the month is ending, the estimated plan outcomes are compared to the original plan and it is determined if there needs to be any revisions to the purchases in subsequent months.

Atmos plans for long-term gas supply and capacity requirements based upon Design Day forecasts. The standard methodology is to use the weather conditions with a probability of occurrence of once in 30 years. The Company uses Time Series linear regression models to prepare the Design Day forecasts. The linear regression model relates energy use to weather variables, heating degree days, wind, day-of-the-week variables, and monthly variables. The Atmos models use only winter data since this data provides the best estimates of the impact of extreme weather on energy use.

Atmos uses the most relevant data possible when conducting the forecasts in order to increase the accuracy of each forecast. An iterative approach is adopted to determine the correct data range for each load study. In some cases, daily measurement is not available to perform a daily load study. In these cases, the measurement data is received as monthly volumes and monthly load studies are performed. In order to ensure that sufficient capacity is held for these studies, an uncertainty factor based upon the increase in design day observed for similarly situated daily load studies in which a variable, like wind, is included as a correlation factor.

### **3. THE COMMISSION'S REQUIREMENTS FOR PURCHASE GAS ADJUSTMENT RECOVERY**

#### **3.1 Cost Recovery for Gas Local Distribution Companies**

The retail rates of a regulated LDC are separated into two major components. One component is the base rate allowance that is designed to recover non-gas costs from its customers such as capital costs (e.g. return on investment, depreciation, and taxes), operation and

maintenance expenses, and administrative costs. The Commission evaluates and authorizes the rates for recovery of the non-gas component through base rate proceedings.

The second component that comprises the retail rates of a LDC is the gas cost component. The gas component is designed to provide for the recovery of the costs incurred by a LDC in the acquisition of gas sold to customers (e.g. purchase, transportation, storage, etc.) The gas component of the LDC's rates is based upon the WACOG sold. The gas component for LPSC-jurisdictional gas utilities is adjusted through the Purchase Gas Adjustment ("PGA") mechanism on a monthly basis as provided for under the terms of the 1999 General Order.

### **3.2 The Commission's 1999 General Order**

Most state regulatory commissions have a PGA mechanism in effect for gas utilities under their jurisdiction much like the one approved by the LPSC. This form of ratemaking is typically authorized when an individual expense is volatile relative to the utility's other costs, represents a significant percentage of the utility's total cost of service, and is generally outside the control of the utility.

The Commission recognized that the gas component of a LDC's cost of service was a good candidate for ratemaking treatment under the PGA mechanism and issued the 1999 General Order to reflect this. The Commission's approval of the PGA mechanism allows the LDC to make monthly adjustments to its rates and to provide for timely recovery of its actual costs without the regulatory scrutiny and delay associated with a base rate proceeding. The 1999 General Order preserves the Commission's authority to audit the PGA filings of the gas utilities in order to confirm compliance with its requirements.

The Commission noted in its 1999 General Order that "fuel adjustment clauses are not designed to allow the utility to earn a profit, rather, they are recoupment devices designed to permit a dollar-for-dollar recovery of fluctuations in fuel costs."<sup>3</sup> In general, only the direct costs associated with natural gas supplies purchased by the utility to serve its jurisdictional customers are to be recovered through the PGA mechanism. An appropriately structured PGA mechanism will ensure that neither the utility nor the ratepayers will be harmed through its application.

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<sup>3</sup> See Commission 1999 General Order, page 2.

In the 1999 General Order, the Commission classifies gas utilities into three categories based upon the number of retail customers served. Group I gas utilities are defined as LDCs serving in excess of 25,000 jurisdictional customers.<sup>4</sup> Group II gas utilities are those serving less than 25,000 customers but more than 500 customers. Group III gas utilities are those serving less than 500 jurisdictional customers. The PGA filing and reporting requirements differ among each category of LDCs as specified in the 1999 General Order.

The Commission's 1999 General Order establishes uniform standards and reporting requirements for all LDCs in the state. A series of schedules must be completed and submitted each month by the LDC to the Commission. Group I utilities, like the Louisiana Division of Atmos, have more stringent reporting requirements than the other LDC classifications. Attached as Exhibit No. 2 are the Staff designed schedules that must be filed under the reporting requirements of the 1999 General Order.

The 1999 General Order also specifies the costs that are eligible and ineligible for recovery through the PGA mechanism. The Commission states that "[O]nly direct purchased gas costs incurred consistent with best cost gas procurement standards (*i.e.* the lowest prudently incurred costs consistent with the need to provide safe, adequate, and reliable service) are eligible for recovery through the PGA mechanism."<sup>5</sup> The costs that are eligible or ineligible for recovery are clearly defined in the 1999 General Order and for convenience are reproduced in Exhibit No. 3.

The 1999 General Order defines the methodologies that are to be used in the LDCs' calculation of the PGA rate. There are specific requirements with respect to the calculation of the LUFG, projected purchased gas costs, over and under-recoveries of gas costs, refunds, contract buyouts, and corrections of errors. In addition, the 1999 General Order includes directions on the reporting and treatment of the costs incurred through affiliate transactions.

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<sup>4</sup> The Louisiana Division of Atmos is classified as a Group I gas utility.

<sup>5</sup> See Commission 1999 General Order, page 3.

#### 4. RATE STABILIZATION PROGRAM

The Commission, on several occasions, has promoted the use of different fuel procurement mechanisms and practices in order to attempt to reduce the volatility in rates. The Commission's 1999 General Order provides uniform guidelines for PGA practices and encourages LDCs to implement commodity procurement and financial mechanisms to stabilize gas rates:

Rate Stability. The Commission strongly encourages, but is not requiring, gas utilities to adopt gas procurement programs which will increase the stability of the PGA rates. The Commission is encouraging systematic, rather than speculative, approaches to rate stability. Rate stability programs may be implemented by purchasing gas directly from a supplier or through the purchase of various financial instruments. Such programs include contracting for a portion of the utility's gas supplies in advance of delivery at the then prevailing market price and the purchase of various financial instruments.<sup>6</sup>

In 2001, the Commission responded to the proposals submitted by a number of utilities, including Atmos on behalf of its Louisiana rate divisions, to utilize financial instruments in an attempt to stabilize fuel costs.<sup>7</sup> In the proceeding, Staff recommended that the Commission refuse to issue advanced prudence determination of the utilities' hedging practices. The Staff believed customers would be better served if the Commission adhered to its long-standing policy of assuring the utilities that if their fuel procurement practices were prudent at the time they were taken, there would be no adverse rulings simply due to gas costs being lower at some future date.

Staff further recommended that the utilities utilize a variety of mechanisms to stabilize rates including "purchasing gas in advance at predetermined prices for later delivery, the utilization of financial instruments such as hedges and the use of storage and other similar mechanisms."<sup>8</sup>

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<sup>6</sup> See Commission 1999 General Order, page 12.

<sup>7</sup> See LPSC Order No. U-25729, Louisiana Public Service Commission, ex parte, In re: *Louisiana Gas Service Company Rate Stabilization Plan; Trans Louisiana Gas Company PGA Rate Stabilization Plan; Joint Application of Entergy Louisiana, Inc. and Entergy Gulf States, Inc. for prior approval of a plan to employ risk management tools for the purpose of stabilizing their respective fuel and/or purchased gas adjustment clauses.* (Issued on July 20, 2001).

<sup>8</sup> *Id.*, at page 6.

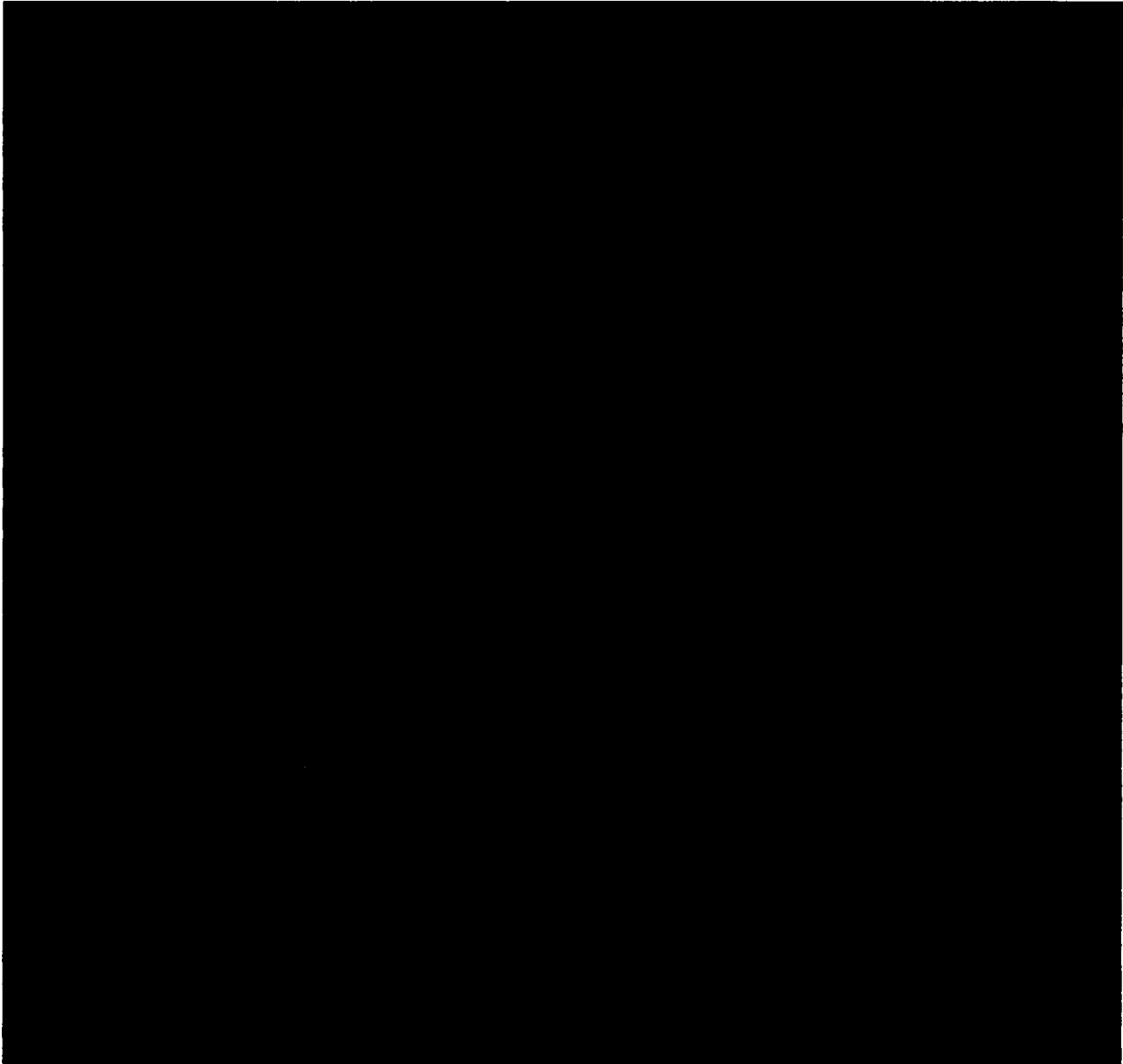
The Staff suggested that a target hedging range between 25 and 50 percent of the utilities' winter heating season needs would be appropriate, depending upon the circumstances of each company.

On February 17, 2004, Atmos filed a petition with the Commission requesting the approval of a proposed Purchased Gas Adjustment-Rate Stabilization Program ("PGA-RSP"). The petition requested pre-approval of (1) the transaction costs associated with the PGA-RSP as eligible costs for recovery through the PGA mechanism, (2) the utilization of Atmos Energy Services, LLC by Atmos to implement its PGA-RSP, (3) the granting of an exception to the sharing of the positive differences generated under Atmos' PGA-RSP as compared to a predefined benchmark with Atmos Energy Services, LLC, (4) Atmos to deviate from the Staff recommended volumes to be hedged as stated in Order No. U-25729, and (5) to implement the PGA-RSP for the 2004-2005 through 2006-2007 winter heating seasons. The petition was considered and unanimously approved by the Commission in Order No. U-27790 issued July 2, 2004.

Atmos relies upon its consultant, Gelber & Associates, to provide guidance on the overall volume to hedge. During the audit period, the hedging program was based upon hedging a volume of 35% - 50% of the normal natural gas requirements. Atmos uses financial swaps and calls in its hedging program. A call option grants the buyer the right, but not the obligation, to buy a futures contract for a specified price within a specified period of time for a one-time payment. A financial swap is an agreement whereby a floating price is exchanged for a fixed price over a specified period. Hedges are purchased during the months of April through October up to two years into the future. Atmos does not engage in physical hedging.

Atmos, on behalf of the Louisiana Division, has operated within the guidelines and has complied with the requirements of Commission Order Nos. U-25729 and U-27790. As part of the compliance review conducted in this audit, the accuracy of the hedging activity reported in the monthly PGA filings submitted by Atmos was confirmed and, through Staff discovery, the Company provided supplemental documentation concerning the volumes and costs in support of the amounts presented in those schedules. Table 3 summarizes the hedging activity during the winter seasons of the audit period.

**Table 3**  
**Atmos Energy Corporation**  
**Louisiana Regulatory Division**  
**Rate Stabilization Program – Hedging Activity**  
**Winter 2019 and Winter 2020**



As shown in Table 3, the overall net losses realized during the audit period were minimal relative to the volumes hedged. The hedging activity from the current audit period of April 2018 – March 2020 was compared to the hedging activity from the prior audit period of April 2016 – March 2018. In the prior audit period, the hedging program resulted in net losses of \$1.4 million compared to the current audit period net losses of \$2.4 million.

The increase in the net losses realized from the prior audit period is primarily attributed to hedging substantially more volume in the audit period of April 2018 – March 2020 than in the prior audit period. In the prior audit period of April 2016 – March 2018, the volume hedged totaled 7,302,000 MMBtu compared to the hedged volume of 12,455,560 MMBtu during the current audit period. However, the net losses from hedging activity in the current audit period were lower than otherwise due to the lower financial costs per MMBtu in the current audit period than in the prior audit period as well as the elimination of call premiums in the current period. The amount of call premiums in the prior audit period totaled approximately \$2.0 million.

As stated in the Commission’s 1999 General Order, the objective of the Rate Stabilization Program is to promote rate stability rather than engage in speculative financial activity. All financial hedges are exposed to the risk that price variations can adversely affect the hedging program (i.e., move against the hedged position) and, thereby, cause an increase in costs. But the Commission has recognized the financial risks associated with hedging and made clear that it would not second guess the gas procurement activities of a jurisdictional utility as long as they were prudent when made.<sup>9</sup>

As a result of the Atmos hedging program, winter period price volatility was reduced by approximately 43% of normal gas requirements. The hedging approach adopted by Atmos is systematic rather than speculative and the quantities that were hedged were consistent with the planned quantities.<sup>10</sup> Staff finds that the Rate Stabilization Program as executed by Atmos is consistent with the requirements of the relevant Commission Orders and achieved the goal of reducing PGA rate volatility.

## **5. ASSET MANAGEMENT PLAN**

Atmos, on behalf of the Louisiana Division, has entered into an Asset Management Plan (“AMP”) with an affiliate, TLGP. The AMP defines the terms and conditions under which Atmos has agreed to release transportation and storage capacity on the system to TLGP in order for TLGP to manage gas supply and delivery arrangements, including transportation and storage capacity,

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<sup>9</sup> *Id.*, at page 8.

<sup>10</sup> According to Atmos’ response to Staff Data Requests.

for the Louisiana Division. When the released capacity is not needed to fulfill the needs of the customers of the Louisiana Division, TLGP may use its expertise to maximize the value of the pipeline capacity and negotiate beneficial transactions in the gas commodity markets.

The AMP in effect for the first half of the audit period (i.e. April 2018-March 2019), the 2014 AMP, covers the five AMP plan years beginning April 1, 2014 and ending on March 31, 2019.<sup>11</sup> Atmos filed an application with the LPSC on June 26, 2018 requesting that the Commission renew the 2014 AMP for an additional five year period for the period of April 1, 2019 through March 31, 2024.<sup>12</sup>

Staff found that the customers of the Louisiana Division have benefitted from the participation in the Commission approved AMPs since they became effective beginning with the 1999 AMP. The financial benefits include: (1) a guaranteed annual Asset Optimization Payment of [REDACTED] and (2) the equal sharing of revenues above the Threshold Amount of [REDACTED]. Based upon Staff's examination of the 2014 AMP and the review of prior AMPs approved by the Commission, the Commission adopted Staff's recommendation and approved Atmos' request to renew the 2014 AMP for an additional five year period.<sup>13</sup>

In prior PGA audits of the Louisiana rate divisions, TLA and LGS, it was determined that an evaluation of the reasonableness of the AMP and the confirmation of the accuracy of the AMP-related transactions was not within the scope of the PGA audit. Therefore, Staff examined each area of the 2014 AMP in Docket No. S-34879 – the separate proceeding assigned for such purposes. The information reviewed by Staff included the record of the prior Commission proceedings in which the Commission approved previous AMPs and the verification of the realized gain amounts reported in the monthly AMP Settlement Statements prepared by TLGP and submitted to Atmos. In addition – and particularly germane to this PGA audit – Staff confirmed that the amounts due to Atmos from TLGP were accurately calculated and that the amounts

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<sup>11</sup> The 2014 AMP was entered into with TLGP and approved by the Commission pursuant to Order No. S-32219, dated November 19, 2013.

<sup>12</sup> The request of Atmos on June 26, 2018, to renew the AMP for an additional five-year period was assigned Docket No. S-34879.

<sup>13</sup> The Commission approved Atmos' request for renewal of the 2014 AMP by Order No. S-34879, dated December 7, 2018.

reported as received by Atmos from TLGP were flowed through to the customers of the Louisiana Division in their entirety as PGA credits throughout the current audit period.

## **6. AFFILIATE TRANSACTIONS**

Transactions between regulated utilities and their affiliates have historically been subject to regulatory scrutiny. As noted in the Commission’s 1999 General Order, “because of the potential for abuse, purchases of gas from affiliated entities must be closely monitored and scrutinized.”<sup>14</sup> Therefore, the Commission requires that “the utility is only allowed to recover the lower of actual cost or market for costs incurred through an affiliated party. Recoverable cost is determined on the same basis as if the gas utility incurred the cost directly.”<sup>15</sup>

Atmos had two contracts in place with its affiliate TLGP during the audit period: (1) a No-Notice Pipeline Service agreement and (2) the AMP. The two contracts with TLGP were entered into to assist in the overall gas planning, procurement, and delivery process. The monthly affiliate transactions were examined in detail as part of the Staff audit in order to verify that they represented arms-length transactions and did not harm the ratepayers of the Louisiana Division.

### **6.1 TLGP No-Notice Pipeline Service Agreement and AMP**

Atmos has the AMP and a No-Notice Pipeline Service (“NNS”) Agreement in place with TLGP. Both agreements remain in effect. The request of Atmos for the renewal of the AMP was recently approved by the Commission and is discussed in Section 5.0 of this audit report. The current NNS Agreement went into effect on October 1, 2017 and continues through October 1, 2027.<sup>16</sup>

TLGP is a wholly-owned subsidiary of Atmos Pipeline and Storage, Inc., which is a wholly-owned subsidiary of Atmos Energy Holdings, Inc (“AEH”). AEH, in turn, is a wholly-owned subsidiary of Atmos, thereby making TLGP an affiliate. TLGP is a certificated Louisiana intrastate pipeline company that owns and operates a 21-mile long 24-inch pipeline in southeast

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<sup>14</sup> See LPSC General Order Docket No. U-22407, dated March 24, 1999, page 14, footnote 3.

<sup>15</sup> *Id.*, at page 14, Section Q (Delineation of Affiliate Transactions).

<sup>16</sup> The original No-Notice Pipeline Service Agreement between Atmos Energy Corporation and Trans Louisiana Gas Pipeline, Inc. was authorized by LPSC Order No. U-26981, dated November 4, 2003. The current No-Notice Pipeline Agreement was approved by LPSC Order No. S-34278, dated January 11, 2017.

Louisiana and a 13-mile 8-inch pipeline in northwest Louisiana. These facilities are primarily used to aggregate gas supply for Atmos' Louisiana Division. TLGP supplies both baseload gas and daily swing purchases to Atmos related to the No-Notice Transportation Agreement and Asset Management Plan.

## **6.2 Sales to TLGP and Special Contract Customers**

Atmos sells gas to TLGP in order to serve customers that are located behind the Atmos distribution system on several pipelines. The cost allocated to TLGP is the WACOG, including applicable upstream transportation and fuel charges. The amount charged to TLGP is credited on Schedule B-3 and, as a result, is not included in the calculation of the monthly PGA rate. The monthly sales transactions were reviewed in order to confirm that in each month during the audit period, the rate on the sales to TLGP exceeded the monthly NYMEX index and the appropriate amount was reflected on Schedule B-3. Throughout the audit period, the sales to TLGP exceeded the NYMEX closing prices and, for the audit period on a whole, the sales to TLGP exceeded the NYMEX closing price by \$0.2259 per MCF. Detail on the monthly sales to TLGP can be found in Exhibit No. 4.

Atmos provided service to special contract customers during the audit period. The special contract customers include: (1) the Winn Parish Prison, (2) the Bayou Correctional Center, (3) the VA Hospital, (4) Northwestern State University, and (5) the University of Louisiana – Lafayette. The sales to TLGP and special contract customers are made at the applicable WACOG for all monthly and daily purchases.

The monthly sales to the special contract customers were reviewed in order to verify that the sales were made at the applicable WACOG for the delivering pipeline. There were no exceptions found in the review of the monthly activity of charges to each special contract customer. Exhibit No. 5 presents detail on the monthly sales to each of the special contract customers.

## **7. STAFF REVIEW AND ANALYSIS OF MONTHLY PURCHASE GAS ADJUSTMENT FILINGS**

Pursuant to the 1999 General Order, Group I LDCs must submit a series of schedules in support of the monthly PGA rate that is to be charged to customers.<sup>17</sup> The "A" Schedules (i.e.

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<sup>17</sup> Refer to Exhibit No. 2 of this PGA Audit Report for the list of monthly schedules to be submitted.

Schedule A-1 through Schedule A-3) provide support for the calculation of the projected PGA rate. The “B” Schedules (i.e., Schedule B-1 through Schedule B-9) report actual gas costs for the two months prior to the applicable billing month and any applicable refunds and corrections of prior month errors. The “C” Schedules (i.e., Schedule C-1 and Schedule C-2) reconcile, on an annual basis, actual monthly PGA costs with actual PGA revenues to determine whether actual gas costs have been over/under-recovered. The over/under-collected balance is either returned to or collected from the LDCs’ customers, with interest, over a twelve-month period through a factor that is calculated on Schedule C-1-A and then forwarded to and applied on Schedule A-1. The LDCs also file “D” Schedules, which provide statistical and residential bill comparison data.

The total PGA rate charged to customers consists of a demand component and a commodity component. The demand component includes a charge for storage or transportation service on estimated peak hourly, daily, or monthly gas usage of the customer(s). The commodity component reflects the total costs of the natural gas based upon the quantity purchased.

#### Demand Component

The reservation and demand charges that make-up the demand component of the PGA rate include pipeline service costs, contract storage service fees, upstream gas supply costs, and capacity release revenues. As part of the forecasting process for gas requirements, Atmos develops individual Design Day Requirements for each pipeline.

The Capacity Entitlements and the Design Day Requirements by pipeline were reviewed as part of the Staff audit. In the months of April 2018 – March 2019, Capacity Entitlements totaled [REDACTED] compared to Design Day Requirements of [REDACTED] resulting in excess capacity of [REDACTED]. The excess capacity for the audit year of April 2019 through March 2020 totaled [REDACTED] of Design Day Requirements. The excess capacity percentage has increased from the prior PGA audit period by [REDACTED]. However, the current period audit percentages of [REDACTED] and [REDACTED] are reasonable in light of the market terms for available capacity. Furthermore, the majority of the excess capacity is associated with the EnLink LIG pipeline: [REDACTED] for the audit year of April 2018 through March 2019 and [REDACTED] for the audit year of April 2019 through March 2020. The EnLink LIG contract includes several pricing arrangements and based upon Staff’s review of the contract provisions, the excess capacity

does not lead to any unreasonable charges. It is also noteworthy that there is not any excess capacity associated with TLGP, the affiliate of Atmos' Louisiana Division.

Using the Design Day Requirements for each pipeline ensures the appropriate level of supply is secured. Supply contracts are secured that have base load and swing supply components. The base load and swing supply requirements are determined by storage withdrawal entitlements and individual pipeline supply characteristics. Supply contract terms may be seasonal, annual, or longer than one year depending upon the supply characteristics of each pipeline. A combination of base load, swing supply and storage withdrawals leads to a secure supply portfolio to meet system requirements. In meeting the system requirements of the Louisiana Division, the total deliveries, by pipeline service, were reviewed for the audit period and are presented in Table 4.

**Table 4**  
**Atmos Energy Corporation**  
**Louisiana Regulatory Division**  
**Deliveries by Pipeline (MMBtu)**  
**April 2018 – March 2020**

<u>Pipeline</u>	<u>April 2018 – March 2019</u>		<u>April 2019 – March 2020</u>	
	<u>Delivered Volume</u>	<u>% of Total</u>	<u>Delivered Volume</u>	<u>% of Total</u>
Acadian Pipeline	349,482	1.68%	329,711	1.69%
Enable Midstream	0	0%	5,000	0.03%
EnLink	2,986,191	14.37%	2,841,036	14.54%
Gulf South	9,155,933	44.07%	8,874,497	45.42%
MidLa Pipeline	141,913	0.68%	127,303	0.65%
Southern Natural	4,906	0.02%	5,301	0.02%
Tennessee Gas	1,693,014	8.15%	1,254,128	6.42%
Texas Gas	244,524	1.18%	429,562	2.20%
TLGP	6,193,553	29.81%	5,668,256	29.01%
Trunkline	<u>5,612</u>	<u>0.04%</u>	<u>5,495</u>	<u>0.02%</u>
Total	20,775,128	100.00%	19,540,289	100.00%

As can be seen in Table 4, the Atmos distribution system was served primarily by EnLink LIG, Gulf South, and TLGP during the audit period.

Each cost element of the projected demand component rate was reviewed and the actual demand costs were traced to the supporting documentation submitted by Atmos for each monthly PGA filing of the audit period. Table 5 provides a summary of the Actual Reservation and Demand Charges that Atmos reported on Schedule B-2 during the audit period.

**Table 5**  
**Atmos Energy Corporation**  
**Louisiana Regulatory Division**  
**Actual Reservation and Demand Charges (Schedule B-2)**  
**April 2018 – March 2020**

<u>Description</u>	<u>April 2018 – March 2019</u>	<u>April 2019 – March 2020</u>
Pipeline Service Costs	\$24,753,141	\$25,483,196
<u>Contract Storage Service:</u>		
Deliverability	7,093	6,836
Capacity	<u>1,292,003</u>	<u>1,291,703</u>
Total Contract Storage Service	1,299,096	1,298,539
Upstream Gas Supply Costs	<u>1,200,000</u>	<u>1,243,800</u>
Total Charges	\$27,252,237	\$28,025,535
Capacity Release Credits	<u>(1,055,974)</u>	<u>(2,093,352)</u>
Total Reservation and Demand	\$26,196,263	\$25,932,183

*Note: Activity represents PGA Filing Month not Actual Month that costs were incurred.*

#### Pipeline Service Costs

Exhibit No. 6 presents detail on the pipeline costs by provider, including the rate, quantity, and total costs for each month of the audit period. The No-Notice Pipeline Services provided by

TLGP are Full Requirements per the No-Notice Pipeline Service Agreement and are not subject to Minimum Demand Quantities. As part of the PGA audit, it was confirmed that the monthly demand charges of TLGP, including the implementation of scheduled escalations, were in compliance with the Monthly Demand Charges approved by the Commission in Order No. S-34278.

In addition to extending the Escalation Cap on the TLPG Monthly Demand Charge, LPSC Order No. S-34278 also set a limit on the Escalation Cap relative to the Gulf South NNS Tariff Rate:

[A]t no time during the Term or Extended Term shall the application of the Annual Escalation Rate cause the monthly Demand Charge payable to TLGP by Atmos to exceed seventy-five percent (75%) of Gulf South Pipeline Company's maximum NNS tariff rate ("Gulf South NNS Tariff Rate") on file with the Federal Energy Regulatory Commission. In the event that the application of the Annual Escalation Rate causes the monthly Demand Charge to exceed 75% of the Gulf South NNS Tariff Rate, the monthly Demand Charges for that year will be set at 75% of the maximum Gulf South NNS Tariff Rate.<sup>18</sup>

As part of the Staff audit procedures, it was verified that the TLGP Monthly Demand Charge did not exceed the Gulf South NNS Tariff Rate during any month in the audit period. The TLGP Monthly Demand Charge ranged from 26.19% to 30.44% of the Gulf South NNS Tariff Rate throughout the audit period.

#### Contract Storage Service Costs

The Contract Storage Service costs are summarized in Table 6. The monthly quantities, rates, and costs for most providers varied slightly with each renewal of the contract during the audit period.

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<sup>18</sup> See LPSC Order No. S-34878, dated January 11, 2017, Exhibit I.

**Table 6**  
**Atmos Energy Corporation**  
**Louisiana Regulatory Division**  
**Actual Monthly Contract Storage Service Costs (Schedule B-2)**  
**April 2018 – March 2020**

<u>Provider</u>	<u>Quantity (Dth)</u>	<u>Rate (\$/Dth)</u>	<u>Monthly Cost</u>
<u>Deliverability</u>			
<u>Southern Natural Gas:</u>			
April 2018 – October 2018	261	\$0.4960	\$129.46
November 2018 – October 2019	261	\$0.4910	\$128.15
November 2019 – March 2020	261	\$0.4560	\$119.02
<u>Tennessee Gas Pipeline:</u>			
April 2018 – December 2018	311	\$1.4938	\$464.57
January 2019 – December 2019	311	\$1.4630	\$455.00
January 2020 – March 2020	311	\$1.3386	\$416.31
<u>Capacity</u>			
<u>Jefferson Island Storage Hub:</u>			
April 2018 – March 2020	1,000,000	\$0.1070	\$107,000.00
<u>Southern Natural Gas:</u>			
April 2018 – October 2018	12,945	\$0.0260	\$336.57
November 2018 – October 2019	12,945	\$0.0257	\$332.69
November 2019 – March 2020	12,945	\$0.0239	\$309.39
<u>Tennessee Gas Pipeline:</u>			
April 2018 – December 2018	16,293	\$0.0205	\$334.00
January 2019 – December 2019	16,293	\$0.0200	\$325.86
January 2020 – March 2020	16,293	\$0.0183	\$298.16

### Upstream Gas Supply Demand Component

The monthly cost incurred for the Upstream Gas Supply Demand Component was \$100,000.00 for each month of the audit period per the terms of the Bridgeline Contract #20591 (the Bridgeline Contract). The Bridgeline Contract was subject to a competitive bidding process and renewed on March 31, 2018, for an additional three-year period (i.e., April 2018 through March 2021). The contract between Bridgeline and TLGP is used to provide No-Notice Service to Atmos. Per Section 4.1 of the No-Notice Pipeline Service Agreement between Atmos and TLGP that was approved by the Commission, all costs associated with third party storage for No-Notice Service on the TLGP pipeline are a pass-through to Atmos.

### Capacity Release Credits

An interstate pipeline that offers transportation service on a firm basis must include in its tariff a mechanism for firm shippers to release capacity to the pipeline for resale by the pipeline on a firm basis. A number of regulations and conditions guide the release of the capacity to replacement shippers, including bidding requirements. However, as part of the FERC's rules, the release of capacity to an asset manager, like TLGP, is exempt from the bidding requirements. Table 7 summarizes the Capacity Release Credits reported during the audit period and the amount of those credits that were attributed to TLGP's management of the AMP. In order to provide a more meaningful comparison, the two month lag between the Projected PGA Cost of Gas and the Actual Cost of Gas has been eliminated.

**Table 7**  
**Atmos Energy Corporation**  
**Louisiana Regulatory Division**  
**Capacity Release Credits**  
**Total Credits vs Asset Management Plan Capacity Release "Gains"**  
**April 2018 – March 2020**

<b><u>Period</u></b>	<b><u>PGA Schedule B-6</u></b>	<b><u>AMP "Gains"</u></b>	<b><u>Difference</u></b>
April 2018 – March 2019	(\$1,055,974)	(\$1,055,974)	\$0
April 2019 – March 2020	(703,104)	(703,104)	0
Total Audit Period	(\$1,759,078)	(\$1,759,078)	\$0

A more detailed discussion of the capacity release credits realized during the audit period can be found in Section 8.5 of the PGA Audit Report (Capacity Release Revenues and Net Margins from Off-System Sales).

The individual cost elements that lead to the Projected Demand Component rate charged customers and the Actual Demand Component costs incurred by Atmos can be found in Exhibit No. 7 and Exhibit No. 8, respectively.

### Commodity Component

The commodity component of the projected gas cost rate that is billed in the current month is based upon historical sales in terms of customer usage (MCF). The rate is determined by the variable charges for transportation service, the gas supply commodity charges (including the effect of the Rate Stabilization Program and the Asset Management Plan), net storage activity, and adjustments/refunds, if any. The actual WACOG is likewise comprised of these cost elements.

The activity reported for each component of the actual commodity costs incurred by Atmos was reviewed for each month of the audit period. A summary of the reported activity for each component that makes up the Actual Commodity Cost of Gas for each audit year is presented in Table 8. The monthly activity reported for each component can be found in Exhibit No. 9.

**Table 8**  
**Atmos Energy Corporation**  
**Louisiana Regulatory Division**  
**Actual Commodity Cost of Gas (Schedule B-3)**  
**April 2018 – March 2020**

<u>Description</u>	<u>April 2018 – March 2019</u>	<u>April 2019 – March 2020</u>
Transportation Service	\$174,257	(\$47,133)
Gas Commodity Charges	67,727,161	48,279,520
RSP and AMP	<u>(1,733,583)</u>	<u>5,776,632</u>
Subtotal Commodity Charges	\$66,167,835	\$54,009,019
Net Storage Activity	<u>595,826</u>	<u>(552,998)</u>
Total Commodity Cost of Gas	\$66,763,661	\$53,456,021
Total Quantity (MMBtu)	20,089,310	19,818,835
\$/MMBtu	\$3.3233	\$2.6972

## Transportation Service

The Transportation Service costs reflect the variable charges for the transport (in Dth) by the pipelines serving Atmos. Although delivery is arranged from several pipelines, it is common for a net credit amount to be reported each month for Transportation Service costs. The monthly net credit is primarily attributed to the transportation service from EnLink LIG. Each month the Total TLGP delivered cost of gas is likely to vary from the monthly firm transportation demand fee. The EnLink LIG firm transportation demand fee was \$167,400.00 (\$1.86/Dth) for 14 months during the audit period, \$162,000.00 (\$1.80/Dth) for 8 months during the audit period, and \$151,200.00 (\$1.68/Dth) for two months during the audit period. The variance from the monthly firm transportation demand fee takes into account the transportation usage for injections into the Jefferson Island Storage Hub, the amount of gas sold to TLGP from other sources, and prior period adjustments. The net credit amount is reported on Schedule B-3 as a reduction in the monthly Actual Commodity Cost of Gas. Atmos furnished Staff with documentation in support of the transportation service costs incurred by each pipeline for each month during the audit period.

## Gas Commodity Costs

The gas commodity costs by far represent the largest driver of the monthly PGA rate. During the audit period, purchased gas commodity costs totaled over \$120.0 million or 69.75% of the overall Actual Commodity Cost of Gas. Table 9 presents the Actual Commodity Cost of Gas incurred by the Louisiana Division relative to the Total Actual Cost of Gas (i.e. Demand Component and Commodity Component) for each year of the audit period.

**Table 9**  
**Atmos Energy Corporation**  
**Louisiana Regulatory Division**  
**Actual Commodity Component Cost of Gas to Total Actual Cost of Gas**  
**April 2018 – March 2020**

<u>Audit Year</u>	<u>Commodity Costs</u>	<u>Total Costs</u>	<u>%</u>
April 2018 – March 2019	\$66,763,662	\$92,959,925	71.82%
April 2019 – March 2020	<u>53,456,021</u>	<u>79,388,205</u>	67.33%
Total Audit Period	\$120,219,683	\$172,348,130	69.75%

*Note: Activity represents PGA Filing Month not Actual Month that costs were incurred.*

The Louisiana Division incurs gas commodity costs each month for gas supply from several marketers as well as its affiliate, TLGP. The actual gas commodity costs are reported on Schedule B-3 of the monthly PGA filing. Atmos includes the vendor documentation in support of the gas commodity charges with each monthly PGA filing. The supporting documentation for several months of the audit period was examined in order to verify the accuracy of the amounts reported on Schedule B-3 and to identify whether any clerical errors had been made and/or unreasonable or unnecessary fees were charged by the suppliers. The examination of Staff did not identify any exceptions to the amounts presented on Schedule B-3.

The actual gas commodity costs incurred by Atmos during the audit period closely track the NYMEX Henry Hub settlement price. Table 10 compares the Projected Commodity Cost of Gas to the Actual Commodity Cost of Gas and the NYMEX Henry Hub closing price by audit year. A monthly comparison can be found in Exhibit No. 10.

**Table 10**  
**Atmos Energy Corporation**  
**Louisiana Regulatory Division**  
**Projected and Actual Commodity Cost of Gas Compared to NYMEX Closing Price**  
**April 2018 – March 2020**  
**\$/MMBtu**

<u>Audit Year</u>	<u>Projected Commodity Cost of Gas</u>	<u>Actual Commodity Cost of Gas</u>	<u>NYMEX</u>
April 2018 – March 2019	\$3.3721	\$3.3233	\$3.1223
April 2019 – March 2020	\$2.7564	\$2.6972	\$2.3288

The audit period results presented in Table 10 show that there is a tight fit between the Projected Commodity Cost of Gas and the Actual Commodity Cost of Gas. More importantly, the differential between the Actual Commodity Cost of Gas and the NYMEX Closing Price is minimal. Based upon the minor differential between the Actual Commodity Cost of Gas and the NYMEX index price, Staff finds that the gas commodity costs recovered through the PGA mechanism are reasonable.

## Net Storage Activity

Atmos utilizes storage facilities primarily for reliability purposes and also to lessen the impact of volatile gas prices. The Company used contract storage facilities over the course of the audit period to complement its gas procurement practices. The injections and withdrawals by pipeline, by month, were examined in the course of the audit. The injections are typically made during off-season months when gas prices are lower and in anticipation of winter demand requirements. Withdrawals are made to meet customer requirements during peak season and also when an opportunity to optimize the AMP arises. The actual net storage activity during the audit period, including monthly injections and withdrawals, is provided in Exhibit No. 11.

### **7.1 The “A” Schedules – Projected Gas Costs**

The monthly “A” Schedules provide support for the PGA rate that will be charged customers in the current month. The demand and commodity rates developed in Schedule A-2 – the Projected Demand Component of Purchase Gas Adjustment – and Schedule A-3 – the Projected Commodity Component of Purchase Gas Adjustment – are forwarded to the summary schedule, Schedule A-1. The Schedule A-1 Purchase Gas Cost Adjustment Rate reflects the inputs forwarded from Schedule A-2 and Schedule A-3 as well as the over/(under) collection amortization factor developed in Schedule C-1-A and other amounts that from time to time are to be amortized as they arise by Commission Order (e.g. the amortization of a FERC-ordered Gulf South refund over twelve months<sup>19</sup>).

The demand cost estimate developed in Schedule A-2 is based upon the actual contracted quantity, rate, monthly cost and annual costs associated with Atmos’ no-notice pipeline service, firm pipeline service, and storage service on each pipeline. The capacity release credit input into Schedule A-2 is a forecasted estimate of the value from the release of capacity on the Gulf South pipeline.

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<sup>19</sup> See FERC Docket No. RP15-65-000 for the settlement reached among the parties and approved by FERC on December 18, 2015. The Louisiana rate divisions were allocated \$2,189,564 of the total refund received by Atmos Energy Corporation based upon volumes purchased. The amount flowed back to the Company’s Louisiana ratepayers totaled \$2,200,271 with interest.

The commodity cost estimate developed in Schedule A-3 is a forward-looking view based upon the First of Month (“FOM”) plans. The FOM plans are developed by using the applicable month normalized throughput volumes. When scheduling FOM, storage withdrawal/injection plans are first determined since these volumes affect the amount of gas to be purchased from Atmos’ suppliers. Storage withdrawals reduce the amount of gas to be purchased from suppliers whereas storage injections add to the amount of gas to be purchased. Based upon normalized throughput and the projected weather forecast, a percentage of normalized volumes is purchased as FOM from Atmos suppliers. Other cost components that are used to calculate the overall commodity cost estimate include variable charges, storage service costs, net storage activity, and the Percentage Lost and Unaccounted for Gas factor forwarded from Schedule C-2.

The accuracy of the calculations made in each “A” Schedule was confirmed for each month of the audit period and the reasonableness of the estimates was verified with the forecasts of the gas requirements provided by Atmos. There were several exceptions noted on Schedule A-1. The exceptions arise from Atmos not forwarding the over/(under) collection amortization factor calculated on Schedule C-1-A. During the PGA filing months of May 2018 through October 2018, the over/(under) collection factor of (\$0.1639) calculated on Schedule C-1-A was not forwarded to Schedule A-1. During the PGA filing months of April 2019 through October 2019, the over/(under) collection factor of \$0.1218 was not forwarded to Schedule A-1.

The effect on the cumulative over/(under) balance subject to the calculation of the amortization factor from the Company’s omission to forward the over/(under) factor was an under-recovery of \$1,039,069 for the first year of the audit period (i.e. April 2018 through March 2019) and an over-recovery of \$956,289 for the second year of the audit period (i.e. April 2019 through March 2020). As explained more fully in Section 8.6 of the Staff Audit Report, the omission to forward the over/(under) collection amortization factor does affect the monthly PGA rate charged the customers of Atmos.

## **7.2 The “B” Schedules – Actual Gas Costs**

The “B” Schedules report the actual gas costs incurred by Atmos two months prior. For example, the “B” Schedules submitted by Atmos as part of the April, 2018 PGA filing reflect the actual gas costs incurred during February, 2018. The demand and commodity rates reported in Schedule B-2 – the Summary of Actual Demand and Reservation Cost Components – and

Schedule B-3 – the Summary of Actual Commodity Components – are forwarded to the summary schedule, Schedule B-1. The Schedule B-1 Adjusted Cost of Gas amount – expressed in dollars – also reflects any refunds and/or corrections for errors forwarded from Schedule B-4-A and Schedule B-4-C. The Adjusted Cost of Gas Amount determined in Schedule B-1 is ultimately forwarded to Schedule C-1-A to be used in the calculation of the over/(under) collection amortization factor.

The accuracy of the calculations made in each of the “B” Schedules was confirmed for each month of the audit period. The documentation provided with the monthly PGA filings that support the actual demand and commodity costs was examined and reconciled to the amounts reported on the line items presented in the relevant “B” Schedules. No exceptions were identified in the course of the examination of the monthly filings and supporting documentation.

### **7.3 The “C” Schedules**

The “C” Schedules are discussed more fully in the following section of the PGA audit report. Schedule C-1 reconciles, on an annual basis, actual monthly PGA costs with the actual PGA revenues generated from the Projected Gas Cost rate developed on Schedule A-1. The accumulated balance of the monthly differences between the actual gas costs incurred and the actual revenues collected is either returned to or collected from the customers with interest over a twelve month period which also affects the Schedule A-1 PGA rate calculation.

Schedule C-2 includes a calculation of the historical percentage of lost and unaccounted-for gas and company-use gas for the most recent three-year period ending June 30th. The LUGF is included in the calculation of the projected PGA commodity component on Schedule A-3.

## **8. COMPLIANCE WITH THE REQUIREMENTS OF THE COMMISSION’S 1999 GENERAL ORDER**

### **8.1 Costs Eligible and Ineligible for Recovery**

The Commission’s 1999 General Order outlines the types of costs that are eligible for recovery through the PGA mechanism and those that are ineligible or fall outside the recovery mechanism. Vendor source documentation, as well as other documentation, was examined in order to determine whether any of the ineligible costs identified in the 1999 General Order were inappropriately included in the monthly PGA filings. The Staff audit of the monthly PGA filings and supporting documentation found no evidence of ineligible costs being passed through for