

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Atmos Energy Corporation )  
 ) 04-0405  
Application for Approval pursuant to )  
Section 7-101 of the Public Utilities Act )  
of Services Agreement between Atmos )  
Energy Corporation and Atmos Energy )  
Services, LLC. )

**ATMOS ENERGY CORPORATION-S**  
**RESPONSES TO ADMINISTRATIVE LAW JUDGE QUESTIONS**

Atmos Energy Corporation (Atmos) provides the following responses to the questions propounded by the Administrative Law Judge in this proceeding:

A. Scenarios

As part of each explanation, please provide cites to specific provisions of the Services Agreement. For each, also provide a hypothetical example, with dollar amounts.

1. Assume AES engages a third party to provide a service that will benefit only Atmos-Illinois operations.

(a) Explain how that cost from the third party will be assigned, distributed, allocated or charged by AES.

**Response:**

All charges for these types of services will be billed directly to Atmos Energy Corporation (AEC). The invoices that AES sends to AEC are itemized by state. The purpose of itemizing the costs by state is to prevent one state subsidizing another as well as to create a clear audit trail. This situation is covered in the agreement under Exhibit 1, Cost Assignment and Allocation, 1. Direct Costs which states that specific costs from third parties will be directly assigned or charged to Atmos.

For purposes of this response and all of its responses, AEC wants to make it clear that it will utilize its Cost Allocation Manual (CAM) to allocate costs within AEC and that the Agreement does not govern or address those allocations. Atmos has previously provided Staff with the CAM.

Example: A third party provides services for \$1,000 for the benefit of Illinois only. This \$1,000 will be billed directly to Atmos Energy Corporation. The AES invoice would show the \$1,000 itemized to Illinois.

(b) Explain how the cost associated with time spent by AES will be (i) calculated and (ii) assigned, distributed, allocated or charged by AES.

**Response:**

Direct Labor costs incurred for the benefit of Atmos Energy Corporation (AEC) will be charged directly to AEC. This example also includes indirect costs which reflect employee benefits, vacations, holidays, etc. These types of costs are addressed in the agreement under Exhibit 1, Cost Assignment and Allocation, 2. Allocated Charges, (a) Direct Costs and (b) Indirect Costs. This portion of Exhibit 1 states A direct labor charges apportioned to a Party shall be increased by a loading factor to reflect indirect costs such as paid absence and incentive compensation.@ This provision of the agreement also provides for direct labor charges to be A increased by a loading factor to reflect the cost of employee benefits.@

Example: An AES employee spends 60 hours providing service to Illinois. For purposes of this example only, the labor rate per hour is \$50.00, and the Labor and Benefits loading is 25% of the labor rate. The calculation is:

$$\$50 \times 1.25 \times 60 \text{ hours} = \$3,750$$

For purpose of this example and all of the examples in these responses, the amount will be charged to AEC by AES for the services provided.

2. Assume AES engages a third party to provide a service that will benefit Atmos= Illinois operation and other Atmos operations.

(a) Explain how that cost from the third party will be assigned, distributed, allocated or charged by AES.

**Response:**

Charges for these types of services will be billed to Atmos Energy Corporation (AEC). The invoice that AES sends to AEC will be allocated based upon the percentage of throughput for each respective state compared to Atmos= total throughput. AEC will use its Cost Allocation Manual (CAM) to allocate the costs within Atmos. (See Exhibit 1, Cost Assignment and Allocation, 2. Allocation Charges, (c) Allocated Costs which states that A costs incurred that are not specifically attributable to one rate division but that have joint benefit to two or more rate divisions shall be charged to the appropriate accounts based on specified allocation methodologies listed in Description of Services@). The methodology described in the

Description of Services provides that costs that are not directly assignable are to be allocated based on throughput.

Example:

For purposes of this example only, a third party provides services for \$1,000 for the benefit of the Company's Illinois and Virginia operations. Illinois throughput is 2,000 and Virginia's throughput is 3,000. Therefore, \$400 will be itemized to Illinois on the invoice from AES to AEC.

The calculation is:

$$\$1,000 \times (2,000 / (2,000 + 3,000)) = \$400$$

(b) Explain how the costs associated with time spent by AES will be (i) calculated and (ii) assigned, distributed, allocated or charged by AES.

**Response:**

Direct Labor costs incurred for the benefit of Atmos Energy Corporation (AEC) will be charged based upon a percentage of hours spent per state. As explained in response to Question No. A(1)(b), these costs will also include loading factors to reflect time for vacations, holidays and sickness as well as employee benefits. These types of costs are addressed in the agreement under Exhibit 1, Cost Assignment and Allocation, 2. Allocated Charges, (a) Direct Costs and (b) Indirect Costs.

Example: For purposes of this example only, an AES employee spends 24 hours providing service to AEC's Illinois operation and 36 hours to AEC's Virginia operation. The labor rate per hour is \$50.00 and the Labor and Benefits loading is 25% of the labor rate. Therefore, AES will invoice AEC for \$3,750, but \$1,500 will be itemized to Illinois. The calculation is:

$$\$50 \times 60 \text{ hours} \times 1.25 \times (24 \text{ hours} / (24 \text{ hours} + 36 \text{ hours})) = \$1,500$$

3. Assume AES provides a service (not involving a third party) that will benefit only Atmos's Illinois operation.

Explain how that cost will be (i) calculated and (ii) assigned, distributed, allocated or charged by AES.

**Response:**

Direct Labor costs incurred for the benefit of AEC's Illinois operation will be charged directly to AEC and the invoice from AES to AEC will itemize the costs to Illinois. (See Exhibit 1, Cost Assignment and Allocation, 2. Allocated Charges, (a) Direct Costs). These costs will also include certain indirect costs which would be allocated as described in response to A Question

1(b), (amounts to reflect employee benefits, vacations, holidays, etc.) (See Exhibit 1, Cost Assignment and Allocation, 2. Allocated Charges, (b) Indirect Costs) Other types of overhead costs (rent, utility costs, office supplies, etc.) will be invoiced from AES to AEC and the invoice will be itemized among AEC's various state operations based upon specified allocation methodologies. (See Exhibit 1, Cost Assignment and Allocation, 2. Allocation Charges, (c) Allocated Costs which states that costs incurred that are not specifically attributable to one rate division but have joint benefit to two or more rate divisions shall be charged to the appropriate accounts based on specified allocation methodologies listed in Description of Services.) Under the Description of Services it states; Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Example: For direct labor charges, assume the same facts in the example in question 1(b) above. Again the calculation would be:

$$\$50 \times 1.25 \times 60 \text{ hours} = \$3,750.$$

Additionally, other miscellaneous costs are incurred by AES that total \$3,000 having joint benefit to all states. For this example, please assume Illinois throughput is 2,000 and Virginia throughput is 3,000 and all other throughput is 15,000. AES will invoice AEC for \$3,000, but \$300 will be itemized to Illinois.

The calculation is:

$$\$3,000 \times (2,000 / (2,000+3,000+15,000)) = \$300$$

In this example, AES would invoice AEC for \$6,750, but the total amount itemized to Illinois would be \$3,750 of direct labor costs incurred plus an additional \$300 of other miscellaneous costs.

4. Assume AES provides a service (not involving a third party) that will benefit Atmos-Illinois operation and other Atmos operations.

Explain how that cost will be (i) calculated and (ii) assigned, distributed, allocated or charged by AES.

**Response:**

Direct Labor costs incurred for the benefit of AEC's Illinois operation and other AEC operations will be charged directly to AEC and the invoice from AES to AEC will itemize the costs to Illinois and the other state(s) based upon a percentage of hours spent per state. As explained in response to Question No. A(1)(b), these costs will also include loading factors to

reflect time for vacations, holidays and sickness as well as employee benefits. These types of costs are addressed in the agreement under Exhibit 1, Cost Assignment and Allocation, 2. Allocated Charges, (a) Direct Costs and (b) Indirect Costs. Other types of overhead costs (rent, utility costs, office supplies, etc.) will be allocated by AES on the invoice among Atmos- various states based upon specified allocation methodologies. (See Exhibit 1, Cost Assignment and Allocation, 2. Allocation Charges, (c) Allocated Costs which states that costs incurred that are not specifically attributable to one rate division but have joint benefit to two or more rate divisions shall be charged to the appropriate accounts based on specified allocation methodologies listed in Description of Services.) Under the Description of Services it states; Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Example: For labor charges, assume the same facts in the example in question 2(b) above. Again the calculation would be:

$$\$50 \times 60 \text{ hours} \times 1.25 \times (24 \text{ hours} / (24 \text{ hours} + 36 \text{ hours})) = \$1,500$$

Additionally, other miscellaneous costs are incurred by AES that total \$3,000 having joint benefit to all operations. For this example, please assume Illinois throughput is 2,000 and Virginia throughput is 3,000 and all other throughput is 15,000. AES will invoice AEC for \$3,000, but \$300 will be itemized to Illinois.

The calculation is:

$$\$3,000 \times (2,000 / (2,000+3,000+15,000)) = \$300$$

In this example, AES would invoice AEC for \$6,750, but the total amount itemized to Illinois would be \$1,500 of labor costs incurred plus an additional \$300 of other miscellaneous costs.

## B. Related Questions (page and line cites are to ICC Staff Exhibit 2.0)

1. On page 5, line 171, explain what is meant by the terms assigned, distributed or allocated. Explain how those terms differ from each other.

### **Response:**

This section of the agreement deals with cost assignment and allocation. All costs invoiced from AES to AEC will either be directly assigned or allocated. The terms distributed and allocated as used in the Agreement are synonymous. The term assigned refers to types of costs that are directly attributable to a particular state. This is in contrast to allocated costs which pertain to a specific state within Atmos and are based upon a calculation. Allocated costs are costs that are incurred for the benefit of two or more states. Such costs are allocated by

AES on the invoice to the appropriate state based on the allocation methodologies listed in the Description of Services section of the contract. As stated previously, Atmos will use its CAM to allocate the costs within Atmos.

2. Explain what is meant by the term **Direct costs** as the term is used in the Agreement?

**Response:**

Direct costs are specific costs incurred solely for the benefit of AEC and the invoice from AES to AEC will itemize such costs to a specific state. Please see Exhibit 1, Cost Assignment and Allocation, 1. Direct Costs.

Under what circumstances are direct costs (i) calculated and (ii) assigned, distributed, allocated or charged by AES?

**Response:**

Direct costs are specific costs incurred for the benefit of AEC and the invoice from AES to AEC will itemize such costs to a specific state. Please see Exhibit 1, Cost Assignment and Allocation, 1. Direct Costs. The only calculation to direct costs by AES would be the Labor and Benefits loading calculation. All direct costs are assigned by AES on the invoice to the state that realized the benefit of those costs. Direct costs would not be distributed or allocated.

3. On page 5, line 177, explain what is meant by the term **Allocated Charges**?

**Response:**

The term **Allocated Charges** are costs incurred for the benefit of AEC that cannot be directly assigned and to which a calculation is applied. The invoice from AES to AEC will itemize such costs to two or more specific states.

Why does that term appear where it does on page 5?

**Response:**

The term is used at that point on page 5 of the Agreement to describe a class of costs that will occur pursuant to the Agreement and to describe the proper treatment of those costs. The term encompasses any other costs that cannot be directly assigned (i.e. vacation and sick time).

4. On page 5, explain what is meant by the term **direct labor** as the term is used in the Agreement?

**Response:**

Direct Labor are specific costs incurred for the benefit of AEC and the invoice from AES to AEC will itemize such costs to a specific state.

Under what circumstances are amounts of direct labor (i) calculated and (ii) assigned, distributed, allocated or charged by AES?

**Response:**

Direct Labor are specific costs incurred for the benefit of AEC and the invoice from AES to AEC will itemize such costs to a specific state. The only calculation to direct labor would be the Labor and Benefits loading calculation. All direct labor is assigned to the state that realized the benefit of those cost. Direct Labor would not be distributed or allocated.

5. On page 6, lines 215 and 216, explain what is meant by the term Rate division?

**Response:**

Rate Division is AEC's internal nomenclature for a particular operation within AEC. For example, AEC's Illinois operation is treated as a Rate Division within AEC. The term Rate division appears under the Allocated Costs section of the Agreement and as used in the Agreement is intended solely for invoicing purposes from AES to AEC.

7. On page 6, line 232, explain what is meant by the term where identifiable?

**Response:**

AES attempts to identify all costs incurred for the benefit of AEC, and assigns those costs that can be identified to a specific state. The term where identifiable refers to such costs. All remaining costs that cannot be directly assigned are allocated to two or more states. The invoice from AES to AEC itemizes all costs to a specific state or states.

8. On page 6, line 234, explain what is meant by the term general nature?

**Response:**

The term general nature refers to costs that cannot be directly assigned to a particular state. These costs would be allocated to two or more states on the invoice from AES to AEC.

9. On page 6, line 235-236, explain what is meant by the term methods of calculating allocation components? Explain how the meaning of that term differs from the prior term methods of allocation?

**Response:**

Allocation components refers to the specific input drivers that are used in determining the costs by AES pursuant to the Agreement to be distributed to a particular AEC state. These include direct labor and the Labor and Benefits loading factor. The term methods of allocation refers to a specific formula used in allocating costs that cannot be directly assigned on the invoice from AES to AEC. The methods used by AES include allocations based upon the percentage of time spent per state and allocations based upon the percentage of throughput to Atmos-throughput in each state.

10. On page 7, line 251-253, explain what is meant by the terms directly assignable, general time and all other costs?

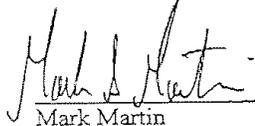
**Response:**

The term directly assignable refers to an AES employee's time that has a direct correlation to an AEC state. The term general time refers to an AES employee's time that cannot be directly assigned to a particular state and will be allocated by AES on the invoice among two or more AEC states. The term all other costs refers to those costs that cannot be directly assigned to a particular state and will be allocated by AES on the invoice among two or more AEC states. AES will send AEC an itemized invoice outlining all of the charges.

VERIFICATION

STATE OF TENNESSEE            )  
  ) SS  
COUNTY OF WILLIAMSON        )

The undersigned, being under oath says that he is the Director, Regional Gas Supply Operations. He prepared Responses to the Administrative Law Judge's questions in Docket No. 04-0405 on behalf of Petitioner, Atmos Energy Corporation. The Responses are true and correct to the best of his personal knowledge, information and belief.

  
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Mark Martin  
Atmos Energy Corporation

Signed and sworn to before me this 7th day of March, 2005, by Mark Martin, Atmos Energy Corporation.

  
\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES  
November 24, 2008



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