

Docket 06-0741

**Company Exhibit 2.1**

(to Prepared Supplemental Direct Testimony of Mark A. Martin)

Filed July 21, 2011

## **Request for Proposal (RFP) Process** (effective April 1, 2005)

This Request for Proposal (RFP) Process incorporates multiple related Procedures utilized in the procurement of gas supply and services. These processes and procedures provide as much standardization as possible across the Business Divisions in gas supply and procurement services. In instances where state jurisdictions differ from the processes and procedures detailed below or additional requirements are required by states, a separate state specific addendum will be included as a part of this document.

The specific processes and procedures included as a part of this overall RFP Process are as follows:

- RFP Flow Procedure  
(depicting preparation / approval / recommendation / contracting)
- Supplier List and Qualification Procedure
- RFP Procedure and “Sample” RFP Letter
- Bid Evaluation and Documentation Procedure

The appropriate Gas Supply Specialist shall maintain a complete file documenting the RFP process for each RFP to ensure that all actions under the procedures listed above are fully documented.

**RFP Flow Procedure**  
(preparation, approval, evaluation, contracting)  
(effective \_\_/\_\_/\_\_)

**Request for Proposal Submittal**

The Gas Supply Specialist will verify the qualifications for any new suppliers requesting to be added or potential suppliers that the Company desires to add to the active supplier list. This will be accomplished and maintained by the Gas Supply Specialist in accordance with the **Supplier List and Qualification Procedure** of this RFP Process.

The assigned Gas Supply Specialist will obtain the most recent supply requirements estimate from the Gas Supply Forecaster. The estimate provided will be total requirements less estimated transportation customers' usage, stated monthly. This estimate will be utilized by the Gas Supply Specialist in the preparation of the RFP letter, development of the Supply Plan, and the bid evaluations. RFPs are generally requested for a term of one (1) year, though shorter (seasonal) or longer (multi-year) requirements may also be submitted. Supply requirements are determined for baseload, swing, and storage (planned injection/withdrawal) requirements. An RFP can cover all or any part of these specific requirements. The respective Gas Supply Specialist will discuss with department management their recommendation of the details under which the RFP should be issued, including specific supply, term, and response requirements.

The RFP letter will be drafted by the Gas Supply Specialist and submitted and/or reviewed with the appropriate Business Division VP, Rates and Regulatory Affairs for any regulatory guidelines and to ensure regulatory compliance.

After being reviewed by the VP Rates and Regulatory Affairs, the Gas Supply Specialist submits the final draft of the RFP letter to the appropriate AES Director of Supply for review and approval.

For Documentation and Recordkeeping, the AES Director reviews, approves and initials file copy of RFPs. The AES Director of Supply will then obtain the AES Vice President approval and initials on the file copy of the RFP letter for documentation. (approval may be provided via email with the RFP letter attached by the respective positions)

Upon final approval, the Gas Supply Specialist sends the RFP letter to suppliers on the appropriate active Supplier List. The Gas Supply Specialist responds to any questions regarding the RFP letter as described in the RFP Procedure of this RFP Process.

### **Bid Receipt and Evaluation**

Bid proposals will be sent to the Gas Supply Specialist that issued the RFP and the Gas Supply Specialist will proceed with the RFP Flow Procedure as follows:

- Receive bid proposals and log date and time received to ensure bid deadline stated in the RFP letter has been met
- Ensure that bids are not opened until after the deadline stated in the RFP letter has expired
- Enlist the AES Director or the director's designee to be present during the opening and initial review of the proposals
- Review proposals in more detail to ensure compliance with RFP request

The Gas Supply Specialist completes the evaluation adhering to the Bid Evaluation Procedure included as a part of this RFP Process.

Upon completion of the RFP evaluation, the Gas Supply Specialist forwards the evaluation and recommendation to the appropriate AES Director of Supply for approval of recommendation. The AES Director of Supply obtains final approval for the recommended supplier from the AES Vice President. The AEC Vice President of Rates and Regulatory Affairs is notified of the evaluation and winning bidder prior to the deal being awarded.

After approval has been granted and the proper initials or signature (or email approvals) has been obtained on the bid recommendation and approval sheet similar to the included **“Sample Bid Recommendation and Approval Memo”**, the Gas Supply Specialist will notify the supplier verbally, followed by a written correspondence (email is sufficient).

### **Contracting**

The RFP Process shall commence to allow for sufficient time to finalize and have an executed contract prior to the effective date of the deal.

The Gas Supply Specialist will be responsible for the following:

- Coordinates with AES management, Contract Administration, and Supplier satisfactory terms and conditions of the contract or NAESB addendum
- Ensures proper pricing and business deal provisions included in contract or addendum
- Coordinates contract execution with Contract Admin and AEC Business Division (VP Rates and Regulatory Affairs or President)
- Follow-up to ensure that contract or contract addendum is executed timely
- Ensures that contract data is correctly entered into Company contract data base or appropriate file media
- Prepares any regulatory filing requirements for the AEC Vice President Rates and Regulatory Affairs

## **Supplier List and Qualification Procedure**

(revised)-/-/-/)

A list(s) of active suppliers is compiled and maintained within the AES Supply Groups for each Business Division for use in the RFP bid process for the Business Division's pipeline systems, and for day to day spot purchase requirements.

The active Supplier List will contain current data to include supplier representative, address, phone numbers, email address and fax numbers.

The suppliers included on the active Supplier List shall be kept current in the following manner:

- Inform suppliers in the Request for Proposals (RFP) letter that should they elect not to bid in the current RFP that they should advise the Company that they are not submitting a proposal but would like to stay on the Supplier List for future RFP's. Otherwise, they will be removed from the active Supplier List for that specific system.
- Suppliers may be added either at the request of the supplier and meeting the minimum supplier qualifications as detailed below or by satisfactory business association in Atmos' other operating areas.

### Minimum supplier qualifications:

- Own or control (right to sell) sufficient supply in the appropriate pipeline area to meet the Company's needs (supply warranty).
- Have a strong reliable performance record with the Company, or be willing to accept the Company's contractual terms to ensure reliability
- For companies new to the list, references which can be contacted to provide information on the vendor's past performance with them.
- Have a strong financial position capable of meeting the necessary financial requirements set by the Company (specifically with agency agreements).

To determine recent financial qualification prior to awarding a bid, the gas supply specialist may request the Company's Treasury and/or Accounting Departments to assist in the evaluation of a requested D&B Report and inform them of their findings and/or recommendations.

## **Request for Proposal (“RFP”) Procedure** (revised \_/~/\_)

The Request for Proposal (“RFP”) Procedure is the process by which Atmos solicits qualified suppliers in the marketplace for the best cost gas supplies to provide for each Business Division.

Though details of the RFP process can vary somewhat between Business Divisions or specific locales, they are all similar in some aspects. The following should be included in the Request for Proposal (RFP) letter or attached in accordance with the RFP Process Flow Procedure, the Supplier List and Qualification Procedure, and the Bid Evaluation Procedure:

- Commodity only RFP: A summary of supply requirements (volumes) and purchase conditions (firm, interruptible, swing, etc.) to be included in or attached to the RFP letter.
- Agency RFP: In addition to volume information, an agency RFP will provide detail of pipeline contracts (daily/seasonal quantities, receipt/delivery points, restrictions, etc.); storage detail also to be provided stating operating parameters (maximum seasonal/daily quantities, ratchet provisions, etc.)
- An RFP letter is drafted, reviewed, and approved by management in compliance with the RFP Flow Procedure which specifies all terms and conditions under which the Business Division is requiring supply and/or agency, the terms under which the supplier must adhere to in their response, including response deadlines and methods (fax, email, regular mail, etc.) which the vendor must use to submit their proposals.

Additional items the RFP letter should contain, but is not limited to, are as follows:

- ✓ Business Division for which the RFP is being issued under,
- ✓ Schedule of volumes, by supply category (i.e., baseload vs. swing) which a bid is being requested,
- ✓ If applicable, for agency or asset management arrangements, additional information shall be provided, detailing parameters of agency or asset management, contract MDQs, storage detail, constraints, warranties required from Agent, unwinding language to determine settling imbalance at end of deal, obligation of agent, etc.
- ✓ If applicable, special circumstances surrounding the delivery / receipt of supply to / by the Business Division

- ✓ Terms which the proposal is to be made (i.e. specific pricing provisions, firm/interruptible etc.)
- ✓ The pricing methodology acceptable for submitting bids to the Business Division.
- ✓ The right to reject any or all proposals
- ✓ Include language informing the suppliers that they should inform the Business Division if they are electing not to bid but would like to remain on the active bid list.
- ✓ Inform suppliers that any additional informational requests relating to the RFP shall be in written form (fax, email, etc.) and that the request and the information provided will be distributed to all parties on the bid list; however, the requesting party will not be identified to others.
- ✓ The deadline by which the response is to be made, and the method in which it is to be transmitted
- ✓ The amount of time a bid is to remain valid, so that the analyst can analyze each proposal received.

Upon finalizing an approved RFP letter, the document is then generally faxed and/or mailed (email), or both, to the RFP supplier listing for that area. The time and method of each transmittal is then recorded and compiled in a file, which will be maintained by each RFP issued.

## **“Sample RFP Letter”**

### **ATMOS ENERGY CORPORATION GAS SUPPLY REQUEST FOR PROPOSAL FOR NATURAL GAS SUPPLY TO TENNESSEE AND VIRGINIA SERVICE AREAS February 20, 2004**

#### **1.0 RFP Overview**

Atmos Energy Corporation (“Atmos”) is seeking proposals from qualified suppliers to provide firm and warranted natural gas commodity requirements for its Tennessee and Virginia service areas. The term of the agreement will commence on April 1, 2004 and continue through March 31, 2005. Specifics of the pipelines which serve Atmos are detailed below and in the accompanied Exhibits. Essentially, Atmos is seeking firm, natural gas commodity only supply for daily flows up to its maximum firm capacity rights on all described pipeline split into baseload and swing components.

**ALL PROPOSALS MUST BE PREPARED IN ACCORDANCE WITH RFP REQUIREMENTS AND MUST BE RECEIVED IN WRITTEN FORM BY 12:00 Noon, Friday March 5, 2004.**

#### **2.0 RFP Communication**

Any reasonable request, at Atmos’ sole discretion, for additional information not contained in this RFP is required in writing and will be provided to all parties receiving this RFP. The identity of the party requesting additional information will not be divulged. All requests for additional information to be used in your analysis should be submitted in writing via e-mail to [deborah.sparkman@atmosenergy.com](mailto:deborah.sparkman@atmosenergy.com). Any proposal clarification requested by Atmos and the response by the Bidder shall be in writing. During the RFP process, Atmos will not entertain any individual meetings with Bidders relating to this RFP until such time that the RFP has been awarded.

Please advise if not submitting a proposal at this time. Otherwise, it will be assumed that your company should be removed from this bid list for future Requests for Proposals for this area. Atmos reserves the right to reject any and all bids.

#### **3.0 Background**

**Service Area I** – “Western Tennessee Service Area” (Union City, Tenn.) served by Texas Gas Transmission.

**Service Area II** – “Middle Tennessee Service Area” (Columbia, Murfreesboro and Franklin, Tenn. areas) The pipelines serving this area are 1) Texas Gas Transmission, 2) Columbia Gulf Transmission, and 3) Texas Eastern Transmission.

**Service Area III** – “East Tennessee/Virginia Service Area” consists of the (ETN-Johnson City, Kingsport, etc. areas and Virginia service areas, as far north as the Blacksburg/Radford areas.) The pipelines serving this area are 1) East Tennessee and 2) Virginia Gas.

Upstream of our Service Areas, Atmos holds firm transportation on Tennessee Gas Pipeline and Columbia Gulf Transmission.

Our annual purchase requirements are approximately 20 Bcf. Approximate historical purchase volumes and typical storage injection and withdrawal volumes are also provided to assist you in the preparation of

your proposal. These volumes are informational only and may or may not be indicative of future requirements. (See Exhibit for further details.)

#### **4.0 Supply Requirements**

All bidders are subject to proof of performance experience, creditworthiness and financial strength commensurate with this type and term of arrangement. Non-performance remedies as well as other terms and conditions will be negotiated and included in the agreement between the parties.

Suppliers may use any alternate receipt points on each pipeline to supply gas, but supplier is responsible for incremental transport charges as a result of alternate points. Also, supplier must be able to provide gas at primary receipt points when secondary points are curtailed.

#### **5.0 Proposal Content**

The following information is required to be considered responsive to this RFP unless the proposing entity can clearly demonstrate that such information is not applicable to its circumstance. Any additional information that the supplier considers useful for Atmos to evaluate its proposal will be considered. Atmos may request additional information at a later date to assist in the decision making process.

#### **5.1 Respondent Information**

- Name and address of supplier
- Name, phone and fax number of contact person for this proposal
- Current annual report
- Evidence of supplier's knowledge and experience in providing service proposed
- Evidence of the supplier's financial viability to provide the service proposed
- Business references

#### **5.2 Description of Proposal**

Each proposal should provide a description of supply and the price which the supplier is willing to contract for and all other pertinent information. The response should present firm and warranted commodity sales based upon the pricing methodology described in section "5.3 Pricing". Additionally, a summary of the amount of equity gas owned or controlled by the bidder, and other supply data should be provided.

Atmos will nominate baseload gas supplies within two working days before the beginning of any month. Monthly purchase volumes will be confirmed by and based on actual receipts by the transporting pipeline.

#### **5.3 Pricing**

Proposals must be submitted with a commodity price equal to, plus (+), or minus (-) the simple arithmetic average of the indices "basket" listed below, to establish a per unit price, per applicable pipeline.

- 1) **Inside FERC Gas Market Report** first-of-the-month posting for the appropriate pipeline and receipt zone,
- 2) **Natural Gas Intelligence**, Bidweek, as published in the first issue each month for the appropriate pipeline and receipt zone,
- 3) The **Nymex** settled closing price for the applicable month.

Incremental purchases, in excess of the baseload purchase volumes, would be at a price equal to, plus (+), or minus (-) the appropriate Gas Daily Average index price which may or may not include a demand component (Bidders Option).

Intraday purchases will be priced by seller at a mutually agreeable price to buyer and confirmed at time of purchase.

#### **5.4 Reliability**

All gas supply is to be **firm and warranted** assuring that natural gas supply services will meet all contractual obligations without fail.

#### **6.0 Evaluation Criteria**

Proposals will be judged on respondent's ability to meet the economical and reliable natural gas needs of Atmos. The principal criteria to be used are as follows: Total delivered cost of gas supply over the term of the contract, reliability of the supply, and the financial viability of the respondent. Atmos has the right to consider any other factors that may be relevant to its gas supply needs.

#### **7.0 Evaluation Duration**

The Bidder shall be prepared to leave the proposal open for a five (5) business-day evaluation period after the submittal deadline.

#### **8.0 Proprietary Data in Proposal**

A proposal may include data which the respondent does not want disclosed to the public or used by Atmos for any purpose other than proposal evaluation. Reasonable care will be exercised so that proposal data is not disclosed or used without the respondent's permission, except to meet regulatory filing requirements. Such data filed for regulatory requests shall be filed as confidential information.

#### **9.0 Rejections of Proposal**

Atmos reserves the right to reject any or all proposals and to re-solicit for proposals in the event that all proposals are rejected. Any proposal may be modified prior to the submittal deadline by written request of the Bidder.

#### **10.0 Submittal Instructions**

Proposals must be received via U.S. Mail, Courier Service or hand delivered in a sealed envelope marked as indicated below on or before March 5, 2004 at 12:00 p.m. CST. No other method will be accepted. No proposal will be opened prior to the stated deadline. The proposals received after the stated deadline will be returned unopened.

Proposals should be marked externally as "Proposal for Natural Gas Service (Tennessee/Virginia)" and mailed to:

Atmos Energy Corporation  
810 Crescent Centre Dr., Suite 600  
Franklin, TN 37067-6226  
Attn: Deborah Sparkman

## **Bid Evaluation and Documentation Procedure** (effective \_\_/\_\_/\_\_)

A bid evaluation / documentation file shall be set-up for each RFP submitted. Both a hard copy file and a electronic file (for all items possible) should be developed and maintained throughout the evaluation process. This will provide for efficient and accurate responses to future Data Request from the state commissions.

The evaluation / documentation process file shall include the following:

- A copy of the RFP letter and all attachments that were included
- A copy of any questions or requests for clarification from suppliers and a copy of the Company's response that was sent to all suppliers provided with the RFP letter.
- A table reflecting the following:
  - The Business Division and Pipeline reflected in the RFP
  - The term that is requested under the RFP
  - List of suppliers that the RFP letter was sent
  - Supplier requested additional information, yes or no. (detail of request provided in bullet above)
  - Suppliers that submitted a proposal
  - Proposals returned due to late bids
  - Specific reasons stated for non conforming proposals
  - Suppliers that did not submit a proposal but requested to stay on active suppliers list
  - Submitted a timely bid, yes or no.
  - Supplier's bid conforms with RFP request, yes or no

After the bid deadline each individual proposal must then be analyzed in contrast to the other proposals. This is done by calculating the differentials between each proposal against some purchase standard, usually a supply plan. Careful attention must be paid to different proposed pricing points, demand charges, flexibility, and cost. As a general rule, the vendor proposing the least cost offer is recommended to management as the winning bid, though there can be exceptions to this. Exceptions can include the downgrading of a vendor's financial status from the time the RFP was issued, issues concerning reliability and operational issues. Once management has approved a recommendation, the winning bidder is notified by written (email) and verbal notice of the Company's acceptance of their offer. Confirmation of the vendor's receipt and

acknowledgement of the Company's acceptance must also be done in writing (email).

All non-winning bidders will be notified by email or other written methods.

- An evaluation spreadsheet calculating the total premium or discount for each proposal as compared to the appropriate indices for the particular supply area
- All assumptions are clearly stated on the evaluation spreadsheet
- All indices that are used to calculate the premium or discount on the evaluation spreadsheet shall be the same index or adjusted to the appropriate index (basis difference)

➤ See file "Sample Bid Evaluation Comparison" file path  
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## **“Sample Bid Recommendation and Approval Memo”**

Atmos Energy Services  
October 6, 2004

### **Recommendations for Atmos Energy Corporation November 1, 2004 – March 31, 2005 Winter Gas Supply Requirements in Kansas Submitted for Review October 6, 2004**

Atmos Energy Services (AES) issued a Request for Proposal (RFP) to solicit proposals for winter gas supply requirements on Kinder Morgan Interstate Pipeline (KMI) effective November 1, 2004 through March 31, 2005.

RFP's were issued to nineteen (19) potential suppliers. AES received proposals from four (4) suppliers and four (4) suppliers declined to submit a proposal, but requested to remain on the Bid List. Bids were received from the following:

Atmos Energy Marketing  
BP Energy Company  
Oneok Energy Marketing and Trading  
Select Natural Gas

Follow up questions were asked of Select about their bid and based on inconsistencies and vagueness concerning the firm delivery of gas, their bid was not considered. In the review of the bids given, Oneok presented the best bid for baseload and swing gas. Their proposal allows for a \$.01 premium on first of the month index for Southern Star and \$.01 also for swing gas at the Gas Daily midpoint price on Southern Star. In the event Oneok must source the gas from Huntsman Storage the premium will change to \$.20. Historically we have not had to use that option.

Based on our review it is recommended that Atmos accept Oneok Energy Marketing's proposal for the Kinder Morgan Pipeline.

#### **Submitted By:**

\_\_\_\_\_  
Regional Supply Specialist  
Atmos Energy Services – Colorado/Kansas Division

#### **Approved By:**

\_\_\_\_\_  
Regional Director of Gas Supply Operations  
Atmos Energy Services – Southwest Region

#### **Final Approval:**

\_\_\_\_\_  
AES Vice President

Atmos Energy  
Illinois Affiliated Interest  
Waiver of Filing and Approval of Contracts  
Part 310  
Competitive Bidding Process for Transactions  
Involving Atmos Energy Marketing  
Final Version June 10, 2003

1. Elements of RFP Package in compliance with Section 310.70(a)
  - a. Commodity and Services
    - i. Specific Contract Term for Pricing
    - ii. Specific Commodity and Transportation Service Requirements
    - iii. Points of Receipt and Delivery
    - iv. Where Title to gas is anticipated to be transferred to Atmos
    - v. Determination of Parties responsibility for nominations
    - vi. Warranties required by Atmos
  - b. Contract Provisions which are required by Atmos
    - i. All Commodity and Services listed above
    - ii. Billing and Payment requirements of Supplier
    - iii. Dispute Resolution
  
2. Two weeks prior to the official bid date for the submission of proposals to Atmos, the Company will place for two consecutive weeks a public notice requesting bid proposals in the official State newspaper (currently the Edwardsville Intelligencer) and a local newspaper of general circulation in its Illinois service area. In addition to Publication Notice in Sections 310.70(a) and (b), Atmos will do the following to ensure that interested and qualified natural gas suppliers will receive the RFP Package and have the opportunity to bid on the supply services on which Atmos Energy Marketing will be bidding:
  - a. Atmos maintains a list of qualified natural gas suppliers with which the Company has successfully worked in the past.

Suppliers receiving the RFP Package and not submitting a proposal will be asked if they want to remain on the list for future consideration.

- b. Atmos will keep all market solicitation documentation for Commission Staff review.
3. The Schedule for RFP delivery, response and proposal analysis will be set up as follows:
- a. RFP Package will be put together and finalized at least five (5) weeks prior to the expiration of the existing contract which is the subject of the RFP.
  - b. The RFP will be sent to gas suppliers with a response due date at least seven days after receipt.
  - c. In the RFP, it will be stated that the analysis of proposals and a final decision will be accomplished seven days after the scheduled receipt of the proposals.
  - d. Since the bidding process does not anticipate ‘sealed’ bids, there is no need for a formalized bid opening. A tabulation of the bids without the inclusion of confidential information will be available to any bidders, upon request.
  - e. The “winning” proposal will be negotiated into a final supplier contract within two weeks of Atmos’ final decision.
  - f. Within fifteen (15) days of executing the final supplier contract, Atmos will file with the ICC a statement of the transaction including a copy of the contract and the un-expunged Tabulation from Paragraph 3(d). Copies of this filing will be provided to the Commission’s Accounting Division and Energy Division Engineering.
  - g. This schedule is intended to comply with Sections 310.70(c) through (i).

Note--- Part 550 is not an applicable rule for the wholesale affiliate transaction anticipated in the process as set out above. Part 550 addresses retail transactions and information exchanges between affiliates.

**Non-Illinois state specific addendums have been removed.**