

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ATMOS)	
ENERGY CORPORATION FOR AN ADJUSTMENT)	CASE NO.
OF RATES AND TARIFF MODIFICATIONS)	2017-00349

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO THE ATTORNEY GENERAL

The Attorney General, by and through his Office of Rate Intervention ("Attorney General"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before February 14, 2018. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

The Attorney General shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to

which the Attorney General fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, the Attorney General shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Direct Testimony of Lane Kollen (“Kollen Testimony”), page 19, lines 9–12.

a. Provide an explanation of the impacts of the recently enacted Tax Cuts and Jobs Act (“TCJA”) on Net Operating Loss (“NOL”) Carrybacks and Carryforwards.

b. Identify the fiscal impact(s), if any, of the changes to NOL Carrybacks and Carryforwards in the TCJA on the conclusions contained in the Kollen Testimony and Exhibits.

2. Refer to the Kollen Testimony, page 24, regarding the normalization requirements in the Internal Revenue Code of 1986 (“IRC”). Also refer to Case No. 2017-00481,¹ the Direct Testimony of Jennifer K. Story (“Story Testimony”), page 6, regarding the Internal Revenue Service normalization requirements. The Story Testimony states

¹ Case No. 2017-00481, *An Investigation of the Impact of the Tax Cuts and Job Act on the Rates of Atmos Energy Corporation, Delta Natural Gas Company, Inc., Columbia Gas of Kentucky, Inc., Kentucky-American Water Company and Water Service Corporation* (filed Dec.27, 2017).

that the use of an amortization period unsupported by use of the Average Rate Assumption Method (“ARAM”) would not be accepted by the Internal Revenue Service, because Atmos’s protected excess deferred taxes must be amortized using the ARAM. In addition, she states that the Commission’s December 27, 2017 Order reflecting a 20-year amortization period suggests that a normalization violation could be asserted and severe tax consequences could occur. Provide an analysis of the AG’s position on the Story Testimony and why it should or should not be accepted in this proceeding.

3. Refer to the Kollen Testimony, pages 31–37, which states that "the one-eighth O&M expense methodology" for determining an allowance for cash working capital (“CWC”) is "outdated, inaccurate, and arbitrary. The methodology is simple, but does not reflect the actual leads and lags in the Company's operating cash flows," and, "I recommend that the Commission set the Company's cash working capital at negative \$3.553 million based on the lead/lag study filed by the Company adjusted to remove the non-cash expenses."

a. Mr. Kollen refers to lead/lag studies performed by NiSource utilities operating in other states resulting in negative CWC when “properly adjusted.” Explain whether any of these studies were "properly adjusted" in the jurisdictional commission's decisions, or whether the adjustments which result in a negative CWC are adjustments made by Mr. Kollen and/or his firm.

b. Identify all Kentucky cases in which Mr. Kollen filed testimony with the Commission wherein he opposed using the one-eighth Operation and Maintenance (“O&M”) expense method to derive the allowance for CWC.

c. Identify any of the cases cited in response to part b. of this request in which the Commission adopted a recommendation by Mr. Kollen to use something other than the one-eighth O&M method to derive the CWC allowance.

4. Refer to the Kollen Testimony, page 46. Confirm that the proposed adjustment only removes company-provided 401(k) contributions for employees that also participate in company-funded defined benefit pension plans.

5. Refer to the Kollen Testimony, page 47, lines 17–21. Confirm that no adjustment was made to reflect the impact of the TCJA from affiliate charges.

6. Refer to the Kollen Testimony, page 48 and Attachment Atmos_Rev_Req_-_AG_Recommendation.xlsx, Tab Tax Rate Change 21%.

a. Provide justification for the selected 20-year amortization period.

b. Explain why the Negative Deferred Income Tax Expense (Amortization) is only grossed up for federal income taxes.

7. Refer to the Kollen Testimony, pages 53 and 54. Explain how a ten-year amortization period was determined.

8. Refer to the Kollen Testimony, page 55, footnote 48.

a. Identify the various concerns with Atmos's current depreciation rates.

b. Explain why only the concern about the net salvage value approach is addressed in this proceeding.

9. Refer to the Kollen Testimony regarding the proposed Annual Review Mechanism ("ARM") beginning on page 66.

a. To the extent Mr. Kollen is familiar with alternative regulation mechanisms in other jurisdictions, provide a discussion of those mechanisms and state

whether there are mechanisms which are reasonable and provide benefits to the customers as well as the utilities.

b. State whether there are safeguards which could be incorporated into the proposed ARM which would address the Attorney General's concerns.

10. Refer to the Kollen Testimony, pages 75–76.

a. Confirm that despite the proposed increase of 400 percent in the R&D Rider revenues, the impact on the average monthly residential bill, according to Atmos's customer notice, is 7 cents or 0.13 percent.

b. Explain why Atmos's Kentucky customers do not benefit in a practical way from advances in natural gas distribution and operational technology, for example those that decrease pipeline damage and leaks.

11. Refer to the Direct Testimony of Richard A. Baudino ("Baudino Testimony"), page 29, regarding Atmos's cost of short-term debt and Atmos's Response to Commission Staff's Second Request for Information, Item 36. Given Atmos's response, explain the characterization of commitment fees as "fixed" or "largely fixed."

12. Refer to the Baudino Testimony, page 5, lines 4–18.

a. The spread between the 20-year Treasury Bond yield and average public utility bond yield has declined from 1.73 basis points in 2008 to 1.21 basis points in 2017. Provide an explanation of why the spread between the two bonds has been declining as interest rates decline.

b. Provide the most current public utility bond yield.

c. Provide the most current 20-year Treasury bond yield.

13. Refer to the Baudino Testimony, page 14, lines 15–21. Mr. Baudino states that utilities face three major risks: business risk, financial risk, and liquidity risk. Provide the level of business, financial, and liquidity risk that Mr. Baudino believes Atmos faces.

14. In Case No. 2016-00371, in an Order entered June 22, 2017, the Commission approved a return on equity (“ROE”) of 9.7 percent for Louisville Gas and Electric Company.² Explain whether economic conditions in Atmos’s service territory are sufficiently different from those in LG&E’s gas service territory for the Commission reasonably to approve an ROE of 8.8 percent for Atmos.

15. Refer to the Baudino Testimony, page 29, lines 15–19 and page 30, lines 1-6.

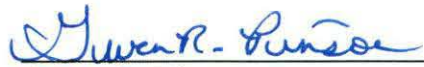
a. Explain whether Atmos included commitment fees in the cost of short-term debt in past rate cases.

b. If confirmed, explain whether the AG recommended their exclusion in past rate cases.

16. Refer to the Baudino Testimony, page 30, lines 9–19. Explain why it is reasonable to include a long-term debt cost based on a forecasted interest rate, especially when the AG advocates rejecting any forecasted model inputs.

17. Refer to the Baudino Testimony. Provide all exhibits in Excel spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.

² Case No. 2016-00371, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2017).



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DATED JAN 31 2018

cc: Parties of Record

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