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The Law Offices of

WILSON, HUTCHINSON & LITTLEPAGE

611 Frederica Street
Owensboro, Kentucky 42301
Telephone (270) 926-5011
Facsimile (270) 926-9394

William L. Wilson, Jr.
Mark R. Hutchinson
T. Tommy Littlepage

bill@whplawfirm.com
randy@whplawfirm.com
tommv@whplawfirm.com

April 8, 2016

James Gardner
Acting Executive Director
211 Sower Blvd.
PO Box 615
Frankfort, Kentucky 40602

RE: WKG Storage, Inc.
Case No. 2016-00053

Dear Mr. Gardner:

WKG Storage, Inc. submits for filing its responses to the Staff's First Data Request. A copy of the responses has been served on the Staff.

If you have any questions concerning this, please let me know. Thank you.

Very truly yours,



T. Tommy Littlepage

Attachments

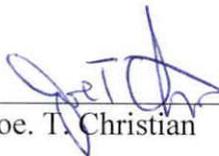
COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

APPLICATION OF WKG STORAGE,)
INC. FOR RATE ADJUSTMENT FOR) Case No. 2016-00053
SMALL UTILITIES PURSUANT TO)
807 KAR 5:076)

AFFIDAVIT

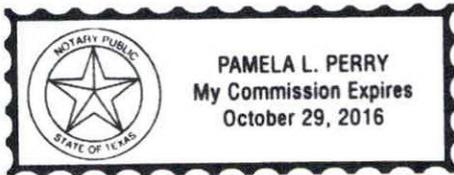
The Affiant, Joe T. Christian, being duly sworn, deposes and states that the attached responses to Commission Staff's first request for information are true and correct to the best of his knowledge and belief.



Joe. T. Christian

STATE OF TEXAS
COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Joe T. Christian on this the 7th day of April, 2016.





Notary Public
My Commission Expires: 10-29-16

**Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-01
Page 1 of 1**

REQUEST:

Refer to Case No. 200 1-00235 in which WKG's acquisition of the assets and business of Kentucky Pipeline and Storage Company, Inc. ("KPSC") was approved by the Commission.

- a. Provide a breakdown, by account number, of the assets acquired in the transaction.
- b. Provide the total consideration WKG paid for KPSC's assets and business broken down by component (cash, assumed liabilities, etc.).

RESPONSE:

- a) Please see Attachment 1 for a breakdown, by 300 level account number, of assets detail that is available.
- b) WKG Storage, Inc. paid \$13 million for the assets and business of Kentucky Pipeline and Storage Company, Inc., as adjusted on the closing statement provided as Attachment 2.

ATTACHMENTS:

ATTACHMENT 1 - WKG Storage, Inc., Staff_1-01_Att1 - WKG Beginning Plant Balances.xlsx, 1 Page.

ATTACHMENT 2 - WKG Storage, Inc. Staff_1-01_Att2 - Closing Statement.pdf, 1 Page.

Respondent: Joe Christian

WKG Storage, Inc.
East Diamond Acquisition - November 2001

300 FERC Account	Account description	Asset Description	November 1, 2001
	<u>WKG Storage (Div 817)</u>		
30100	Plant Organization		\$ -
35120	Compr. Stat. Struct		0.00
35200	Wells	Wells & Down-Hole Equipment	962,235.13
35203	Cushion Gas	Cushion Gas	4,840,000.00
35210	Storage Rights & Oper. Leases	Storage Rights/Operating Leases	564,392.31
35300	Pipelines	In-Field Gathering System	909,516.31
35400	Comp Station Equip	4 AJAX DPC Compressors	1,338,964.76
35500	Meas & Reg Equip	WKG Tap/Meter Run	291,586.40
35600	Purification Equipment	Dehydration Unit	204,110.48
36520	Rights-Of-Way	Pipeline Right-of-way	131,213.88
36600	Structures & Improvements		0.00
36700	Mains	18 mile, 8 inch transmission line to ANR	3,382,402.28
36900	Meas & Reg Sta Equip	ANR Tap/Meter Run	466,538.25
	Total WKG Storage		<u><u>\$13,090,959.80</u></u>

**CLOSING STATEMENT
EFFECTIVE AS OF NOVEMBER 1, 2001**

PURCHASE PRICE **\$ 13,000,000.00**

Decrease in Sales Price

Storage Fees, excluding fuel retention costs, paid by Buyer to Seller from March 1, 2001 through July 31, 2001	<u>\$ 128,356.03</u>
Total Decrease	\$ 128,356.03

Increase in Sales Price

November Operating Fee paid to Orbit Gas Company	\$ 16,500.00
Actual 2001 property taxes related to the period subsequent to the Effective Time	<u>\$ 1,662.52</u>
Total Increase	\$ 18,162.52

PURCHASE PRICE **\$ 12,889,806.48**

Storage Fees Owed Seller for March 2001 through July 2001	\$ 128,356.03
Storage Fees Owed Seller for August 2001	\$ 26,345.08
Storage Fees Owed Seller for September 2001	\$ 26,452.20
Storage Fees Owed Seller for October 2001	<u>\$ 20,000.00</u>

TOTAL CASH REQUIRED AT CLOSING **\$ 13,090,959.80**

**Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-02
Page 1 of 1**

REQUEST:

Refer to WKG's Notice of Proposed Rate Adjustment, Item 4, where it states that "Atmos Energy Corporation ["Atmos"] is the only customer served under this tariff." Explain whether WKG has the ability to serve customers other than Atmos.

RESPONSE:

Currently, Atmos Energy Corporation ("Atmos Energy") has contracted for 1.75 Bcf of firm intrastate storage capacity from WKG Storage, Inc. WKG Storage, Inc. has 1.8 Bcf of working gas in its storage field. So for so long as its contract with Atmos Energy is in effect, WKG Storage, Inc. could theoretically contract with another party for an additional 0.05 Bcf of firm intrastate storage capacity.

Respondent: Joe Christian

Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-03
Page 1 of 1

REQUEST:

Refer to WKG's Revised Cost of Service Schedules and Workpapers filed on March 1, 2016 ("COSSW"),²WP_B-1 Inj, page 7, column b, line 30. Explain how the \$8,652 amount was derived.

RESPONSE:

The \$8,652 shown on WP_B-1 Inj reflects the total allocated Injuries and Damages amount for December 31, 2015 prior to adjustment. In this case, it is calculated by taking \$6,655,587 times the allocation factor of 0.13%. This amount is not utilized to calculate the revenue requirement, but to show the adjustment change on Schedule B Rate Base, Line 13.

Respondent: Joe Christian

**Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-04
Page 1 of 1**

REQUEST:

Refer to WKG's COSSW,WP_B-3 ADIT, page 10.

- a. State whether WKG's calculation of accumulated deferred income ("ADIT") includes the impact of bonus depreciation in its rate base.
- b. If the response to Item a. above is negative, provide updates to all affected schedules and workpapers reflecting the impact of bonus depreciation on ADIT and rate base.

RESPONSE:

- a) WKG Storage, Inc.'s COSSW, WP_B-3 ADIT reflects Generally Accepted Accounting Principles (GAAP), which require the Company to record the impact of enacted tax legislation and rates in the computation of tax expense and ADIT on the financial statements. The Company has included the impact of bonus depreciation through December 31, 2014 and between October 1, 2015 and December 31, 2015; however, since the extension of bonus depreciation was signed into law on December 18, 2015, the impact of this extension was not included in the Company's ADIT as of September 15, 2015 for the period between January 1, 2015 and September 30, 2015. The bonus depreciation for the first three quarters of calendar 2015 (i.e. that related to the extension) will be calculated for Atmos Energy Corporation's fiscal year ended 9/30/15 on the Company's 9/30/15 tax return to be filed in June 2016. At this time, the Company will record the tax return true-ups to the financial statements.
- b) Please see the response to subpart (a).

Respondent: Joe Christian

Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-05
Page 1 of 1

REQUEST:

Refer to the 2015 annual report, page 110; the 2015 annual report, page 207, column g; and the COSSW, Schedule C, page 11, column d.

- a. Explain whether the amounts in the annual report on page 207 for Accounts 352-Wells, 354-Compressor Station Equipment, 355-Measuring and Regulating Equipment, and 356-Purification Equipment are included in the amounts shown for the same accounts on Schedule C.
- b. If the answer to part a. above is yes, explain why only the smaller amounts in the annual report are recorded in Account 101 , Gas Plant in Service, and the remainder of the larger amounts shown on Schedule C are recorded in Account 121, Nonutility Property, as must be concluded based on the balance sheet on page 110 of the annual report.

RESPONSE:

- a) Yes, the amounts in the annual report on page 207 are included in the amounts shown for the same accounts on Schedule C.
- b) Account 106 - Completed Construction Not Classified falls under Account 101 - Plant In Service on the Company's general ledger since the assets are used and useful and placed into service. Therefore, the assets reflected in Account 101 on the WKG Storage, Inc. books and records are actually assets that are currently booked to Account 106. Once these assets become classified they will be credited from Account 106\101 and debited to Account 121 - Non Utility Property.

Respondent: Joe Christian

Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-06
Page 1 of 1

REQUEST:

Refer to WKG's COSSW, Schedule C, pages 11 - 13.

- a. Provide a description of the function of the Greenville Data Center.
- b. Provide a description of the functions performed by "SSU - General Office (Div 002), General Plant. Distribution and Marketing Projects."
- c. Explain how the allocation factors of 0.13, 0.23, and 0.24 percent shown on pages 12-13 were derived.

RESPONSE:

- a) The Greenville Data Center functions as the primary data center for Atmos Energy Corporation to support enterprise applications. The Greenville Data Center also houses updated server equipment and hard drive storage. All divisions utilize the computing services of the data center. In addition to functioning as the Company's primary data center, the Greenville facility also houses Atmos Pipeline - Texas' SCADA (Supervisory Control and Data Acquisition) operations and the Mid-Tex Division Pressure Control group.
- b) SSU - General Office (Div 002), General Plant. Distribution and Marketing projects are not a specific organization or function, but rather specific capital projects in Shared Services that are residing in the General Office Service Area (Division 002) that provide service to only the Distribution divisions and the Non-regulated operations and these projects provide no service to Atmos Pipeline - Texas.
- c) The composite allocation factors 0.13% and 0.24% are derived based on a three-factor formula (Gross Direct Property, Plant & Equipment, Average Number of Customers, and Total O&M Expense). The Greenville Data Center allocation factor of 0.023% is based on the three-factor formula composite factor and square footage of the Greenville Data Center.

Respondent: Joe Christian

**Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-07
Page 1 of 1**

REQUEST:

Refer to WKG's COSSW, Schedule E, page 17.

- a. State or provide WKG's capitalization policy.
- b. Explain whether any non-recurring expenses are included in column e of Schedule E.
- c. State whether WKG included rate case expense in developing its revenue requirement.
- d. If the response to part c. is negative, provide WKG's current estimate of its rate case expense for this proceeding, broken down by expense type.

RESPONSE:

- a) WKG Storage, Inc. uses the same capitalization policy as Atmos Energy Corporation. Please see Attachment 1 for the capitalization policy.
- b) Column (e) of Schedule E contains expenses that the Company considers normal and ongoing. Column (c) Adjustments is intended to remove all non-recurring expenses that the Company is aware of from the filing.
- c) The Company did not include any rate case expenses in developing its revenue requirement.
- d) WKG Storage, Inc. currently estimates that this rate case will cost it approximately \$25,000-\$50,000 in outside attorney's fees. WKG Storage, Inc. does not currently anticipate this case going to hearing or requiring outside testimony, if that were to change, WKG Storage, Inc. may revise its estimate.

ATTACHMENT:

ATTACHMENT 1 - WKG Storage, Inc., Staff_1-07_Att1 - Atmos Energy Capitalization Manual.pdf, 31 Pages.

Respondent: Joe Christian

**ATMOS ENERGY CORPORATION
CAPITALIZATION MANUAL
OCTOBER 1, 2015**

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Introduction

The primary purpose of the capitalization manual is to provide guidance for coding direct capital project costs and to describe the methods used to capitalize overhead costs and division operating expenses that support the capital activities of the Company. Direct capital project costs represent costs easily associated with the acquisition, development, and/or construction of a capital project. Capital overhead costs represent indirect costs that cannot be directly associated with any particular asset or group of assets but relate to the support of capital activities. Operating expenses that support capital activities, including but not limited to vehicles, heavy equipment and insurance also have a portion of their costs capitalized. The below sections of this manual describe the capitalization of direct project costs, overhead costs and operating expenses in further detail.

As a publicly traded utility company, Atmos Energy's capitalization policy should conform to both GAAP and the FERC Uniform System of Accounts (USOA). Under GAAP, there is no specific authoritative guidance governing the accounting for project costs except as it relates to SOP 98-1 Costs of Computer Software Developed or Obtained for Internal Use (now ASC 350-40). However, consistent with other entities, Atmos Energy analogizes to the guidance in Statement of Financial Accounting Standards (SFAS) No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects* (now ASC 970). For regulatory purposes, the Company's regulators require the utilization of the USOA in all its jurisdictions. The USOA Gas Plant Instructions 3 and 4 provide the relevant guidance concerning project costs. The USOA is also applicable to Atmos Energy for GAAP purposes since, as a public utility company, Atmos Energy is subject to the requirements of SFAS 71, *Accounting for the Effects of Certain Types of Regulations* (now ASC 980).

It should be noted that some work activities can be considered either capital or expense depending on the nature of the activity performed. These occurrences have been identified in the capital activities section of this policy and the proper FERC account has been provided for activities that should be charged to O&M expense. A more comprehensive listing of O&M activities and related FERC accounts has been included in the Account Coding Matrix section of the Account Coding Manual.

The examples of the work activities described in this manual and how they are coded should be a reference tool for employees engaged in these activities. However, it should be noted that there may be instances where the employee must use their professional judgment to determine whether certain costs should be capitalized or expensed. If unsure, the employee should always consult their manager or the Manager of Plant Accounting before coding the invoice and associated labor. Below are some examples of activities that may be considered capital or expense depending on their nature:

- An invoice is received for the mowing of grass around the division general office. As the mowing does not relate to a capital activity it is charged to expense. Another example is for the mowing of grass related to the first clearing and grading of land for a right-of-way. As the mowing relates to the first clearing and grading of the right-of-way it is capitalized (Gas Plant Instruction 7A).
- A customer meter is painted for the first time upon installation. As the painting is associated with the installation of the meter the related charges are capitalized. If the meter is painted subsequent times then the related charges are expensed as they are not associated with the installation of the meter.
- Welds are tested on newly installed pipe. As the testing of welds is associated with new pipe installation the related charges are capitalized. If the testing of welds is associated with existing pipe, then the related charges are expensed.

Labor Activities

Cathodic Protection

Definition: installation and maintenance of cathodic protection equipment if not associated with a steel main or service line installation

Examples:

- installation or replacement of anodes
- installation or maintenance of rectifiers
- extended coverage of existing systems
- replace faulty insulators - Insulators are a substantial component of a cathodic protection system. They serve as a mechanical fitting on the system, similar to the purpose of a leak clamp on a main or service.
- annual CP reads

Labor Coding

All labor associated with the installation of new or replacement/removal of existing equipment:

Project – specific project or functional

Task – 19900 for installation of anodes; 37600 for installation of rectifiers; 19700 for extended coverage; 98000 for retirement; Install/Retire for functional

All labor associated with annual CP reads and rectifier checks:

Account – 8740 (Mains and services expenses)

Pipeline Account – 8560 (Mains expenses)

Sub-account – 01000 (Default)

Invoice coding for material, etc.

Invoice coding for the installation of new or replacement equipment:

Project – specific project or functional

Task – 19900 for installation of anodes; 37600 for installation of rectifiers; 19700 for extended coverage; 98000 for retirement; Install/Retire for functional

Expenditure type - type that best describes the charges being coded

Cost center - four digit cost center where work is being completed

Invoice coding for annual CP reads and rectifier checks:

Company – three digit company number where work is being completed

Cost center – four digit cost center where work is being completed

Account – 8740 (Mains and services expenses)

Pipeline Account – 8560 (Mains expenses)

Sub-account – sub-account that best describes the charges being coded

Service area – six digit service area where work is being completed

Labor Activities

Fabricate Large Meter Set (Loop)

Definition: fabrication of a large meter set

Examples:

- build meter loop
- pressure test
- prime & paint

Labor Coding

For meter set fabricated for a new installation:

Project – growth functional or specific project

Task – 38200 for specific project; Install for functional

For meter set fabricated for the replacement of an existing installation:

Project – non-growth functional or specific project

Task – 38200 for specific project; Install/Retire for functional

Invoice coding for material, etc.
--

Invoice coding for meter set fabricated for a new installation:

Project – growth functional or specific project

Task – 38100 for meter costs; 38300 for regulator costs; Install for functional

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

Invoice coding for meter set fabricated for the replacement of an existing installation:

Project – non-growth functional or specific project

Task – 38100 for meter costs; 38300 for regulator costs; 98000 for retirement; Install/Retire for functional

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

Labor Activities

Install Leak Clamps

Definition: installation of leak clamps on existing pipe

Examples:

- installation of leak clamp
- check for leaks
- clean-up
- completion of required paperwork
- any other activities necessary for successful completion
- full encirclement/half sole
- Trident tape repairs

Notes:

- Partial encirclements are generally used on fitted risers and are a type of permanent leak repair.
- Full encirclements, normally leak clamps of various brands and types, are used on service lines or mains and are also permanent repairs.
- The technology called "Trident Tape" can be used as either a full encirclement or a partial encirclement permanent repair.

Labor Coding

Installation of leak clamp as a permanent repair (See Gas Plant Instruction 10B(1)). Does not include a temporary repair awaiting capital replacement in the near future.

Project – non-growth functional

Task – Install/Retire

- **Installation of leak clamp as a temporary repair awaiting replacement in the near future. "Near Future" is defined as less than one year. This may vary across the Enterprise depending upon the applicable regulatory body's directives.**

Account – 8870 (Maintenance of mains) for leak clamps on mains, 8920 (Maintenance of services) for leak clamps on services.

Sub-account – 01000 (Default)

Invoice coding for material, etc.

Installation of leak clamp as a permanent repair (See Gas Plant Instruction 10B(1)). Does not include a temporary repair awaiting capital replacement in the near future.

Project – non-growth functional

Task – Install/Retire

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

Installation of leak clamp awaiting replacement in the near future. "Near Future" is defined as less than one year. This may vary across the Enterprise depending upon the applicable regulatory body's directives.

Company – three digit company number

Cost center – four digit cost center where work is being completed

Account – 8870 (Maintenance of mains) for leak clamps on mains, 8920 (Maintenance of services) for leak clamps on services.

Sub-account – sub-account that best describes the charges being coded

Service area – six digit service area where work is being completed

Labor Activities

Install New Main

Definition: installation of distribution main

Examples:

- installation and fusion of pipe
- contractor inspection
- completion of required paperwork
- any other activities necessary to successfully install new main
- design of major subdivision
- securing of right-of-way
- first clearing and grading of right-of-way

Labor Coding

Project – specific project

Task – based on size and type of pipe installed

Invoice coding for contract labor, material, etc.
--

Project - specific project

Task -- based on size and type of pipe installed

Expenditure type – type that best describes the charges being coded

Cost center -- the cost center of the project

Labor Activities

Install New Meter Set/Loops/Barricades

Definition: installation of customer meter

Examples:

- install meter
- check pressure
- test for leaks
- install barricades to protect meter set from third party damage
- any other activities necessary to successfully complete installation

Labor Coding

Project – growth functional or specific project

Task – 38200 for the installation cost for residential, commercial and industrial regulators, meters and barricades

Barricades:

Repairs to barricades should be charged to expense

Account – 8780 (Meter and house regulator expenses)

Subaccount – 01000 (Default)

Invoice coding for material, etc.
--

Invoice coding for contract labor, material, etc.:

Project – growth functional or specific project

Task – 38100 for meter cost; 38300 for residential cost, 38500 for large commercial or industrial regulator cost;
Install for functional

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

Labor Activities

Install New Service Line

Definition: install new service line from the main to customer premises

Examples:

- installation and fusion of pipe
- securing of right-of-way
- completion of required paperwork
- any other activities necessary to successfully install new service

Labor Coding

Project – growth functional or specific project

Task – based on size and type of pipe installed; Install for functional

Invoice coding for contract labor, material, easements, etc.

Project – growth functional or specific project

Task – based on size and type of pipe installed; Install for functional

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

Labor Activities

Install/Replace Regulator/Border Stations

Definition: installation of new and replacement /retirement of existing stations

Examples:

- installation of new station
- replacement of existing station
- removal of existing station

Labor Coding

Project – specific project or non-growth functional

Task – 37800 for installation/replacement of city plant
37900 for installation/replacement of TBS
98000 for retirement
Install/Retire for functional

Invoice coding for contract labor, material, easements, etc.

Project – specific project or non-growth functional

Task – 37800 for installation/replacement of city plant
37900 for installation/replacement of TBS
98000 for retirement
Install/Retire for functional

Expenditure type - type that best describes the charges being coded

Cost center - four digit cost center where work is being completed

Labor Activities

Leak Repairs/Monitoring/Pinpointing

Definition: replace pipe due to leakage / pinpointing

Examples:

- Mechanical Couplings
- Any Constab - Constab is simply a brand name for a particular type of mechanical coupling. They are no different than a slip-fit, etc. All are a newer type of leak clamp.
- Water work due to leakage - These types of leaks involving water occurs on low pressure Cast Iron or Bare Steel main systems. The majority of these types of leaks cause the customers to lose gas service in their homes. All these types of leaks will require either leak clamps or pipe replacement to restore system reliability to the gas delivery system.
- Pinpointing/Monitoring that leads to a capital repair.
- Any Electro fusion

Notes:

- For most divisions replacement of 5-250 feet of pipe is completed under a functional. Replacement of over 250 feet of pipe is completed with a specific project.
- APT: All replacements, regardless of length, are completed on a specific project.
- Louisiana: 5-100 feet of pipe is completed under a functional. Replacement of over 100 feet of pipe is completed with a specific project.

Labor Coding

Project – Leak functional or specific project

Task – based on size and type of pipe installed; Install/Retire for functional

A temporary repair awaiting replacement in the near future; replacement of less than 5 feet of pipe.

Account – 8870 (Maintenance of mains) for mains, 8920 (Maintenance of services) for services

Sub-account – 01000 (Default)

Invoice coding for material, etc.
--

Project – Leak functional or specific project

Task – based on size and type of pipe installed; Install/Retire for functional

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

A temporary repair awaiting replacement in the near future; replacement of less than 5 feet of pipe.

Company – three digit company number

Cost center – four digit cost center where work is being completed

Account – 8870 (Maintenance of mains) for mains, 8920 (Maintenance of services) for services

Sub-account – sub-account that best describes the charges being coded

Service area – six digit service area where work is being completed

Labor Activities

Leak Survey

Definition: survey of mains and services

Examples:

- any activity involved in leak survey or recheck
- special surveys for system upgrades/uprates

Labor Coding

For leak surveys completed to pinpoint a leak for a capital repair charge to the leak functional.

Project – Leak functional

Task - Install/Retire for functional

Leak surveys conducted for any other reason:

Account – 8740 (Mains and services expenses)

Sub-account – 01000 (Default)

Invoice coding for contract labor, material, etc.
--

For leak surveys completed in conjunction with a capital repair charge to the leak functional.

Project – Leak functional

Task - Install/Retire for functional

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

Leak surveys conducted for any other reason:

Company – three digit company number

Cost center – four digit cost center where work is being completed

Account – 8740 (Mains and services expenses)

Sub-account – sub-account that best describes the charges being coded

Service area – six digit service area where work is being completed

Labor Activities

Line Locates

Definition: locating underground lines

Examples:

- any activity involved with the location of underground facilities

Labor Coding

All labor associated with locating lines in conjunction with activities described in other sections of this manual as capital work, for example: new construction (such as finding the main for installation of new services), leak repair involving > 5 feet of pipe, or relocation of mains or services.

Project – specific project or functional

Task – based on size and type of pipe installed; Install/Retire for functional

All labor associated with locating lines due to a third party request or in conjunction with activities described in other sections of this manual as expense, for example: leak repair involving less than 5 feet of pipe, retirement of services less than half of the total distance, installation of temporary leak clamps, or repairs to barricades.

Account – 8740 (Mains and services expenses)

Sub-account -- 01000 (Default)

Invoice coding for contract labor, material, etc.

All invoices associated with locating lines in conjunction with capital work performed by company personnel.

Project – specific project or functional

Task – based on size and type of pipe installed; Install/Retire for functional

Expenditure type - type that best describes the charges being coded

Cost center - four digit cost center where work is being completed

All invoices associated with locating lines due to a third party request or expense work performed by company personnel.

Company – three digit company number

Cost center – four digit cost center where work is being completed

Account – 8740 (Mains and services expenses)

Sub-account – sub-account that best describes the charges being coded

Service area – six digit service area where work is being completed

Labor Activities

Replace/Retire Existing Main

Definition: replace and retire existing distribution main

Examples:

- installation/removal and fusion of pipe
- completion of required paperwork

Notes:

- A systematic split between CWIP and Cost of Removal will be applied to capital projects for Mains and Services only that include both additions and retirements. The systematic split will be applied to the charge types Labor, Contractor Labor, and Contractor Services from the AP and Payroll sources.
- For most divisions replacement of 5-250 feet of pipe is completed under a functional. Replacement of over 250 feet of pipe is completed with a specific project.
- APT: All replacements, regardless of length, are completed on a specific project.
- Louisiana: 5-100 feet of pipe is completed under a functional. Replacement of over 100 feet of pipe is completed with a specific project.

Labor Coding

Project – functional or specific project number

Task – based on size and type of pipe installed; 98000 for retirement; Install/Retire for functional

All labor associated with the replacement/retirement of main under 5' in length:

Expense account – 8870 (Maintenance of Mains)

Sub-account – 01000 (Default)

Invoice coding for contract labor, material, easements, etc.

Project – functional or specific project

Task – based on size and type of pipe installed; 98000 for retirement; Install/Retire for functional

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

All invoices associated with the replacement/retirement of main under 5' in length:

Company – three digit company number

Cost center – four digit cost center where work is being completed

Account – 8870 (Maintenance of Mains)

Sub-account – sub-account that best describes the charges being coded

Service area – six digit service area where work is being completed

Labor Activities

Replace/Retire Meter Set (Loop)

Definition: replacement and retirement of entire existing meter set (everything to the stop)

Examples:

- removal and replacement of entire set including the meter loop
- check pressure
- test for leaks
- completion of required paperwork
- relight pilot light
- any other activities necessary to successfully complete installation

Labor Coding

For the replacement of the existing meter set:

Project – non-growth functional or specific project

Task – 38200 for specific project; Install/Retire for functional

For the retirement of the existing meter set:

Project – non-growth functional or specific project

Task – 38298 for specific project; Retire for functional

Invoice coding for material, etc.
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Project – non-growth functional or specific project

Task – 38200 for replacement; 38298 for retirement; Retire for functional

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

Labor Activities

Replace/Retire Service Line

Definition: replace and retire existing service line

Examples:

- installation/removal and fusion of pipe
- completion of required paperwork
- any other activities necessary to successfully replace/retire service

Notes:

- A systematic split between CWIP and Cost of Removal will be applied to capital projects for Mains and Services only that include both additions and retirements. The systematic split will be applied to the charge types Labor, Contractor Labor, and Contractor Services from the AP and Payroll sources.

Labor Coding

- **All labor associated with the replacement/retirement of existing service line if more than half of the total distance (including riser length) or greater than 5ft. On alley sets, replacement of the riser would typically cover greater than half the service; thus it would be capitalized.**

Project – non-growth functional
Task - Install/Retire

- **All labor associated with the replacement/retirement of less than 5ft unless more than half the distance of existing service line is replaced (including riser length).**

Account - 8920 (Maintenance of Services)
Sub-account – 01000 (Default)

Invoice coding for contract labor, material, easements, etc.

All invoices associated with the replacement/retirement of existing service line if more than half of the total distance (including riser length) or greater than 5ft.

Project – non-growth functional

Task - Install/Retire

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

All invoices associated with the replacement/retirement of less than 5ft unless more than half the distance of existing service line is replaced (including riser length).

Company – three digit company number

Cost center – four digit cost center where work is being completed

Account – 8920 (Maintenance of Services)

Sub-account – sub-account that best describes the charges being coded

Service area – six digit service area where work is being completed

Labor Activities

Sample/Periodic Meters (Testing)

Definition: the testing or removal/replacement of meters for testing

Examples:

- testing of periodic meters
- removal/replacement of meter for testing (if meter loop is replaced, refer to instructions for replace/retire meter set)
- completion of required paperwork
- any other activities necessary for successful completion

Labor Coding

For the testing and/or removal of meters for testing when the meter is retired:

Project: non-growth functional

Task: Retire

Note: If the entire meter loop is replaced and retired at the same time as the meter removal for testing, time should be charged as provided in the preceding guideline, Replace/Retire Meter Set. Also, if a meter can be returned to service, the testing should be expensed.

Invoice coding for material, etc.
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Invoice coding for material, etc. when the meter is retired:

Project – non-growth functional

Task – Retire

Expenditure type – type that best describes the charges being coded

Cost center – the cost center of the project

Labor Activities

Meetings specific to a capital project

Definition: attendance at any meetings specifically related to a capital project

Examples:

- Pre-construction meetings

Labor Coding

Labor for meetings specific to a capital project should be charged to that specific capital project.

Training

Definition: attending training classes

Examples:

- technical training classes
- new software instruction
- safety training

Capital:

All labor associated with training relating to facilities which are not conventional in nature or are new to the company's operations. When it is necessary that employees be trained to operate or maintain plant facilities that are being constructed and such facilities are not conventional in nature or are new to the company's operations, these costs may be capitalized as a component of construction cost.

Expense:

All labor associated with training to specifically operate or maintain plant facilities. Once plant is placed in service, the capitalization of training costs shall cease, and subsequent training costs shall be expensed.

Capitalized Overhead

Capitalized overhead costs are to be accumulated in overhead projects in account 1070 by operating division (and by state for divisions that serve multiple states). On a monthly basis, the overhead accumulated in these projects is to be applied to specific capital projects using a budgeted overhead application rate. The application rate is to be established at the beginning of the fiscal year based upon projected capital expenditures and should be reviewed periodically and revised as necessary to reflect significant changes to the company's capital expenditure plans. At least quarterly, any residual amount remaining in the overhead projects that have not been previously applied to a specific project are to be allocated to capital projects based on project spending during the quarter. Capitalized overhead that is specific to a business unit or state is to be allocated only to the capital projects for that business unit or state. Shared Services capitalized overhead is to be allocated to capital projects across the regulated operations of the company.

For Shared Services, a Capitalized Overhead Study is to be performed each fiscal year to determine the capitalization rates to use for the Shared Services cost centers that support the capital activities of the Company. These rates are to be prepared on a labor and non-labor basis. To determine the rate, the cost center owner (in most cases the Director or Manager of the department) will estimate the number of employee hours that their department will spend on direct capital activities, in support of capital activities and on O&M activities for the upcoming fiscal year (non-employee time such as holidays and PTO are also factored in). The cost center owner will then develop a capitalization rate, for both labor and non-labor, based upon this breakout of employee labor hours. There are some cost centers within Shared Services that support the overall work of the company. These cost centers should utilize a total company capitalization rate that is to be calculated by taking the total company labor capitalization rate (including contract labor) for the latest fiscal year ended. Finally, there are some cost centers within Shared Services that do not support the capital activities of the company and therefore have a capitalization rate of zero. Each month, the Plant Accounting department will use these rates to calculate the Shared Services capitalized overhead by applying the cost center rate to the cost center expenses for that month. A journal entry is to be recorded to credit the O&M account 9200-04863-A&G Overhead Clearing and debit account 1070 for the Shared Services Overhead Project. It should be noted that due to the timing of the month-end close there is currently a one-month lag for these amounts in the general ledger (for example, the June journal entry for Shared Services capitalized overhead would be calculated based upon May cost center activity). On a quarterly basis, the balance in the Shared Services Overhead Project is to be cleared to the capital projects across the regulated operations based on eligible spending during the quarter. If the project is open, then the allocated charges should be attached to the project's work-in-process balance. If the project has become in-service plant then the allocated charges should be recorded to Utility Plant (account 1010) through late-charge unitization.

Capitalized overhead costs can be generally grouped into the below categories:

Administration and Oversight of Activities Directly related to Capital Projects – These costs are related to the supervision, administration, cost analysis and reporting of the activities that are being directly charged to capital projects. The departments/employees that support, supervise and monitor direct project charges should allocate a reasonable amount of their time to capital overhead. An example of this would be an Operations Manager who oversees capital project work.

Support Functions – These are functions that enable the departments that support capital activities to perform their duties. This includes, but is not limited to, facilities management, information technology and accounting functions. Since the support function has a less direct relationship to capital projects the following general question should be answered to determine capitalization eligibility: *Would the function operate with fewer staff if Atmos Energy discontinued the capital program?* Generally, with the exception of certain supervisory and management roles, if the answer is "no" then none of the costs of that function should be capitalized. If the answer is "yes" then the costs of that function should be capitalized.

Capitalization of Division Operating Expenses

As the following division operating expenses are substantially related to employee capital work activities a portion of their costs should be capitalized (See Gas Plant Instruction 3 Components of construction cost). The capitalization of these division operating expenses is to be performed monthly through the General Accounting mass allocation process. Please note that Shared Services operating expenses that support capital activities are capitalized through the overhead process (see page 18 above) so this section is only applicable to the operating divisions. Please see below for further detail:

Vehicles – A percentage of vehicle expense is to be capitalized each month through the mass allocation. The capitalization percentage is to be calculated for each cost center based on the amount of labor dollars capitalized (subaccount 01001-Capital Labor divided by the sum of 01000-Nonproject Labor and 01001-Capital Labor). Only O&M accounts are to be used in this calculation. The capitalization rate will then be multiplied by the balance in subaccounts 03001-Vehicle Depreciation and 03004-Vehicle Expense for all O&M accounts. The result of this calculation is to be recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 03003-Capitalized Transportation Costs. In the following month the balance in account 1070 for capitalized vehicles is allocated directly to capital projects that incurred labor costs (and contract labor for Mid-Tex/APT) based on the cost center on the project. If there are no direct capital project labor costs (and contract labor for Mid-Tex/APT) for the respective cost center then the amount is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

Heavy Equipment – Heavy equipment expense is capitalized each month at 98% through the mass allocation. This rate is multiplied by the balance in subaccounts 04301-Equipment Lease and 04302-Heavy Equipment for all O&M accounts. The result of this calculation is to be recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 04307-Heavy Equipment Capitalized. In the following month the balance in account 1070 for capitalized heavy equipment is allocated directly to capital projects that incurred labor costs (and contract labor for Mid-Tex/APT) based on the cost center on the project. If there are no direct capital project labor costs (and contract labor for Mid-Tex/APT) for the respective cost center then the amount is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

VPP and MIP – The accrual for VPP and MIP is recorded to capital and expense for each business unit based on budget. The business unit capitalization ratio for VPP/MIP takes both employee labor and contract labor into account. The capital portion is recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 07454-VPP & MIP Capital Credit. In the following month the balance in account 1070 for capitalized VPP and MIP is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

Insurance - A percentage of insurance expense is to be capitalized each month through the mass allocation. The capitalization percentage is to be calculated for each cost center based on the amount of labor dollars capitalized (subaccount 01001-Capital Labor divided by the sum of 01000-Nonproject Labor and 01001-Capital Labor). Only O&M accounts are to be used in this calculation. The capitalization rate will then be multiplied by the balance in subaccounts 04070-Insurance Other, 04069-Blueflame Property Insurance and 07121-Insurance Public Liability for all O&M accounts. The result of this calculation is to be recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 04072-Insurance Capitalized. In the following month the balance in account 1070 for capitalized insurance is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

Rent - A percentage of rent expense is to be capitalized each month through the mass allocation. The capitalization percentage is to be calculated for each cost center based on the amount of labor dollars capitalized (subaccount 01001-Capital Labor divided by the sum of 01000-Nonproject Labor and 01001-Capital Labor). Only O&M accounts are to be used in this calculation. The capitalization rate will then be multiplied by the balance in subaccount 04581-Building Lease/Rents for all O&M accounts. The result of this calculation is to be recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 04580-Building Lease/Rent Capitalized. In the following month the balance in account 1070 for capitalized rent is allocated directly to capital projects that incurred labor costs (and contract labor for Mid-Tex/APT) based on the cost center on the project. If there are no direct capital project labor costs (and contract labor for Mid-Tex/APT) for the respective cost center then the amount is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

Restricted Stock - A percentage of restricted stock expense is to be capitalized each month through the mass allocation. The capitalization percentage is to be calculated for each cost center based on the amount of labor dollars capitalized (subaccount 01001-Capital Labor divided by the sum of 01000-Nonproject Labor and 01001-Capital Labor). Only O&M accounts are to be used in this calculation. The capitalization rate will then be multiplied by the balance in subaccounts 07458-Restricted Stock Long-term Incentive Plan Performance Based, 07460-RSU Long-term Incentive Plan Time Lapse and 07463-RSU Management Incentive Plan for all O&M accounts. The result of this calculation is to be recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 07450-Capitalized Restricted Stock. In the following month the balance in account 1070 for capitalized restricted stock is allocated directly to capital projects that incurred labor costs (and contract labor for Mid-Tex/APT) based on the cost center on the project. If there are no direct capital project labor costs (and contract labor for Mid-Tex/APT) for the respective cost center then the amount is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

Uniforms - A percentage of uniforms expense is to be capitalized each month through the mass allocation. The capitalization percentage is to be calculated for each cost center based on the amount of labor dollars capitalized (subaccount 01001-Capital Labor divided by the sum of 01000-Nonproject Labor and 01001-Capital Labor). Only O&M accounts are to be used in this calculation. The capitalization rate will then be multiplied by the balance in subaccount 07443-Uniforms for all O&M accounts. The result of this calculation is to be recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 07444-Uniforms. In the following month the balance in account 1070 for capitalized uniforms is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

Utilities - A percentage of utilities expense is to be capitalized each month through the mass allocation. The capitalization percentage is to be calculated for each cost center based on the amount of labor dollars capitalized (subaccount 01001-Capital Labor divided by the sum of 01000-Nonproject Labor and 01001-Capital Labor). Only O&M accounts are to be used in this calculation. The capitalization rate will then be multiplied by the balance in the following subaccounts (for all O&M accounts):

04582-Building Maintenance; 04585-Railroad easements and crossings; 04590-Utilities; 04801-Company Used Gas

The result of this calculation is to be recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 04599-Capitalized Utility Costs. In the following month the balance in account 1070 for capitalized restricted stock is allocated directly to capital projects that incurred labor costs (and contract labor for Mid-Tex/APT) based on the cost center on the project. If there are no direct capital project labor costs (and contract labor for Mid-Tex/APT) for the respective cost center then the amount is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

Telecom - A percentage of telecom expense is to be capitalized each month through the mass allocation. The capitalization percentage is to be calculated for each cost center based on the amount of labor dollars capitalized (subaccount 01001-Capital Labor divided by the sum of 01000-Nonproject Labor and 01001-Capital Labor). Only O&M accounts are to be used in this calculation. The capitalization rate will then be multiplied by the balance in the following subaccounts (for all O&M accounts):

05310-Monthly Lines and Service; 05312-Long Distance; 05314-Toll Free Long Distance; 05316-Telecom Maintenance & Repair; 05331-WAN/LAN/Internet Service;; 05364-Cellular, Radio, Pager Charges; 05376-Cell Service for MDTs, PCs, SCADA and Other Data Related Uses; 05377-Cell Phone Equipment and Accessories; 05380-Video Conference; 05390-Audio Conference

The result of this calculation is to be recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 05399-Capitalized Telecom Costs. In the following month the balance in account 1070 for capitalized restricted stock is allocated directly to capital projects that incurred labor costs (and contract labor for Mid-Tex/APT) based on the cost center on the project. If there are no direct capital project labor costs (and contract labor for Mid-Tex/APT) for the respective cost center then the amount is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

SERP/SEBP – A percentage of SERP/SEBP expense is to be capitalized each month based on the Division President's Fixed Labor Distribution (FLD) capitalization rate. The capitalization rate is updated in October of each fiscal year. The capitalization rate is to be multiplied by the balance in subaccount 07489-NQ Retirement Cost. The result of this calculation is to be recorded by business unit as a debit to account 1070-CWIP and a credit to subaccount 07490-SERP Capitalized. In the following month the balance in account 1070 for capitalized SERP is to be entered into the Plant Accounting system as capitalized overhead and allocated to projects using the same process described on page 18.

Benefits Capitalization

Benefit costs should be capitalized or expensed based on employee labor. Please see the below method for how medical/dental costs are accounted for (other types of benefits follow a similar methodology) in the general ledger:

Step 1: A load rate for Medical/Dental costs is budgeted at the beginning of the fiscal year and applied throughout the year to labor costs. The same rate is applied to Capital and Expense labor, and the resulting amounts go to Capitalized Benefits Load (in account 1070) and Expensed Benefits Load (in account 9260), following the labor for service area and cost center. The offset for these loaded amounts are recorded to the clearing accounts as credits (account 1840).

Step 2: Gross actual costs are booked to the Gross Cost clearing account as debits. Any difference between the total gross cost and the offsetting loaded amounts in the clearing accounts is recorded to Expense Variance (in account 9260) in the Division General Office service area.

Step 3: After the Variance has been booked, an entry is recorded to align Capital and Expense Medical/Dental to Capital and Expense Labor (because the entire variance in Step 2 above is recorded to Expense Variance).

For Shared Services, the benefits variance is recorded to cost center 1463 HR Benefit Variance and is capitalized based on the rate determined in the Shared Services Capitalized Overhead Study.

General Plant Property Threshold

General Plant property is recorded in Gas Plant Accounts 389 through 399. Construction or purchase of general plant property costing less than \$1,000, and whose use is individual in nature, generally will not be capitalized. Instead, the purchase will be charged to the appropriate O&M FERC account.

When determining the \$1,000 threshold for the general plant property the use of the individual assets being purchased should be considered. Please see the below examples:

- New furniture is purchased for a conference room. The purchase includes a new conference table that costs \$750 with six new chairs that cost \$100 each. Individually, none of these items is over the \$1,000 threshold. However, the conference table and chairs should be viewed as one whole set as this is how the assets will be used when business meetings are conducted (the conference table cannot fulfill its purpose without the chairs). Thus, the entire purchase price of \$1,350 should be capitalized as general plant property.
- A new refrigerator is purchased for the break room for \$800. As the cost of the refrigerator is less than the \$1,000 threshold and as the refrigerator has a use that is individual in nature, then the \$800 cost should be expensed to the appropriate O&M FERC account.

Labor Activities

Fixed Labor Distribution Coding

Definition: Specific work activities that should be charged to an employee's fixed labor distribution or "default" coding.

Examples:

- Company Holiday
- EIB, Administrative Leave, Bereavement, Injury on Job, Jury/Witness, Military Duty, PTO Prior Year Taken, STD, Workers' Comp
- Facilities Maintenance
- Floating Holiday
- Maintenance of Company Vehicles
- Meetings, such as safety or any non-project related meetings
- Non-Paid Hours
- Non-Worked Paid Hours
- Office Work-Timesheets, Vehicle Safety checklist, etc.
- PTO
- Re-stocking Trucks (unless material is for a specific capital project)

Notes:

Business unit administrative employees (e.g., VP Finance, VP Human Resources, etc.) will have an FLD capitalization rate. The FLD, including the capitalization rate, is updated in October of each fiscal year and monitored for any material changes.

Accounting for the Costs of Computer Software Developed or Obtained for Internal Use – Statement of Position 98-1

The Accounting Standards Executive Committee (AcSEC) issued Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP)*, during 1998. The new SOP establishes, for the first time, guidance on accounting for the costs incurred related to internal use software. The overall objective of the SOP is to provide guidance that specifically addresses the accounting for the costs related to designing, developing, obtaining, modifying and/or implementing internal use software and, thereby, eliminate the diversity that exists in practice.

SOP 98-1 requires that companies capitalize qualifying costs incurred during the *application development stage*. All other costs incurred in connection with an internal use software project are to be expensed as incurred. Because the SOP requires certain costs to be capitalized, it may result in many companies reporting higher earnings, at least initially.

The SOP is effective for years beginning after December 15, 1998, but companies can early adopt in fiscal years for which annual reports have not been issued. Initial application of the SOP should be as of the beginning of the fiscal year the SOP is adopted. Restatement or previously issued annual financial statements or adoption by cumulative catch-up is not permitted. If the SOP is adopted prior to its effective date and during an interim period other than the first interim period, all prior interim periods should be restated.

For many companies, SOP 98-1 will require the implementation of new systems or procedures to track internal use software project costs, particularly systems to accumulate payroll information for those employees involved in development activities during the application stage. As a result, we recommend companies begin analyzing the requirements of the SOP and identify procedures and system modifications necessary in order to comply with the SOP and to facilitate deciding whether to adopt early or to wait until next year.

We have prepared this booklet to assist you in adopting the new rules. It addresses the provisions of the SOP and key management implementation considerations. As always, Ernst & Young professionals are available to assist you in adopting SOP 98-1 and addressing the related issues.¹

SOP 98-1

Given the extent to which software is being used internally and in the absence of any authoritative guidance, the costs associated with internal use software projects had become diverse. In practice, some companies capitalize internal use software costs, whereas other companies expense such costs as they are incurred (the prevalent practice). Still other companies capitalize the cost of obtaining externally developed or purchased software and expense the cost of internally developed software. The SOP is intended to eliminate the diversity in practice that exists in the accounting for internal use software and improve financial reporting for what has become a significant unrecorded asset for many companies. AcSEC believes that the costs of computer software developed or obtained for internal use are specifically identifiable, have determinate lives, relate to probable future economic benefits, and meet the criteria for recognition as an asset in the financial statements. In addition, AcSEC concluded that users of financial statements will find capitalizing internal use software useful because the marketplace inherently considers the technological capabilities, including software, of many entities when establishing market values.

The SOP describes three stages relating to the development of internal use software. These stages are the preliminary project stage, the application development stage, and the post-implementation/operation stage. The following summarizes the activities performed by companies during each of these stages.

Preliminary Project Stage – During this stage companies are allocating resources between projects, determining performance requirements of the software, determining alternatives to meet performance requirements, and meeting and selecting software vendors and consultants.

Application Development Stage – During this stage companies are designing software configuration and interfaces, coding, installing software, and testing.

Post-Implementation/Operation Stage – During this stage companies are likely to be training employees or performing maintenance activities.

¹ Ernst & Young, November 1998

SOP 98-1 requires companies to capitalize qualifying computer software costs incurred during the application development stage. All other costs incurred in connection with internal use software must be expensed as incurred. The SOP requires companies to capitalize the following costs incurred during the application development stage:

- External direct costs of materials and services incurred in developing or obtaining internal use software (e.g., cost to purchase software, write program code, employee travel expenses).
- Payroll and payroll related benefits for those employees who are directly involved with and who devote time to the software development project.
- Interest costs incurred during the application development stage. Interest should be capitalized in accordance with FASB Statement No. 34, *Capitalization of Interest Cost*.

In addition, the SOP requires companies to capitalize costs incurred to develop or obtain software that allows for access or conversion of old data by a new system. All other data conversion costs are required to be expensed as incurred. The useful life assigned to capitalized data conversion software should be based on the period such software is expected to provide future utility to the company. In many cases due to the nature of the conversion process, a relatively short-life would be assigned to capitalized data conversion software costs. The costs of internal use software should be amortized on a straight-line basis unless another systematic and rational basis is more representative of its use. In determining the useful life, companies should consider the effects of obsolescence, technology, competition, and rapid changes in software development and operating systems. Given the history of rapid changes in technology, software historically has had a relatively short useful life. Amortization should begin for each component or module when the software is ready for its intended use, regardless of whether the software is placed in service. However, if the functionality of a module is entirely dependent on the completion of other modules, amortization of that module should begin when the other modules upon which it is functionally dependent are ready for their intended use. SOP 98-1 requires companies to evaluate capitalized software costs for impairment in accordance with FASB Statement No. 121, *Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. The SOP includes the following examples of indicators that internal use software has been impaired:

- The software is not expected to provide substantive service potential.
- A subsequent change occurs in the extent or manner in which the software is used or expected to be used.
- A significant change to the software is made or expected to be made.
- Cost to develop or modify internal use software significantly exceeds the amount originally expected to be incurred (cost overruns) to develop or modify the software.

Additionally, when it is no longer probable that computer software being developed will be completed or placed in service, no further costs should be capitalized and the software should be reported at the lower of its carrying amount or fair value, if any. The SOP contains a rebuttable presumption that uncompleted software has a zero fair value. Companies should consider carefully the useful lives assigned to internal use software. Assigning realistic lives could help mitigate the impact of impairment charges companies might be required to recognize in future years if decisions are made to replace or abandon existing systems.

Table of Activities Related to Software Projects

To determine the appropriate accounting, each activity of a software project, even if performed by a single vendor, should be classified to determine if such costs should be capitalized or expensed. The following table (derived from a similar table included in EITF No. 97-13) summarizes these activities and the appropriate treatment under SOP 98-1 and EITF 97-13.

Steps	Expense	Capitalize	Authoritative Guidance
Preliminary Software Project Stage Activities:			
Conceptual formulation of alternatives	X		SOP 98-1
Evaluation of alternatives	X		
Determination of existence of needed technology	X		
Final selection of alternatives	X		
Application Development Stage Activities:			
Design of chosen path, including software configuration and software interface		X	SOP 98-1
Coding		X	
Installation to hardware		X	
Testing, including parallel processing phase		X	
Data Conversion Costs: a. Costs to develop or obtain software that allows for access of existing data by new system		X	
Data Conversion Costs: b. All other data conversion processes	X		
Post-Implementation/Operation Stage Activities:			
Training	X		SOP 98-1
Application maintenance	X		
Ongoing support	X		
Business Process Reengineering and Information Technology Transformation:			
Preparation of request for proposal (RFP)	X		EITF 97-13
Current state assessment (The process to document the company's current business process, except as it relates to current software structure. This activity is sometimes called <i>mapping</i> , <i>developing an "as-is" baseline</i> , <i>flow charting</i> , and <i>determining current business process structure</i> .)	X		
Process reengineering (The effort to reengineer the company's business process to increase efficiency and effectiveness, sometimes called <i>analysis</i> , <i>determining "best-in-class," profit/performance improvement development</i> , and <i>developing "should-be processes</i> .)	X		
Restructuring work force (The effort to determine what employee makeup is necessary to operate the reengineered business processes.)	X		
Acquisition of Fixed Assets:			
Purchase of new computer equipment, office furniture, or work stations		X	In accordance with existing accounting policy
Reconfiguration of work area – architect fees and hard construction costs		X	

**Code of Federal Regulations (CFR), Title 18; Part 201, Gas Plant Instruction 3:
Components of Construction Costs (as of October 1, 2014)**

3. *Components of construction cost.* A. The cost of construction properly includable in the gas plant accounts shall include, where applicable, the direct and overhead costs as listed and defined hereunder:

(1) "Contract work" includes amounts paid for work performed under contract by other companies, firms, or individuals, costs incident to the award of such contracts, and the inspection of such work.

(2) "Labor" includes the pay and expenses of employees of the utility engaged on construction work, and related workmen's compensation insurance, payroll taxes and similar items of expense. It does not include the pay and expenses of employees which are distributed to construction through clearing accounts nor the pay and expenses included in other items hereunder.

(3) "Materials and supplies" includes the purchase price at the point of free delivery plus customs duties, excise taxes, the cost of inspection, loading and transportation, the related stores expenses, and the cost of fabricated materials from the utility's shop. In determining the cost of materials and supplies used for construction, proper allowance shall be made for unused materials and supplies, for materials recovered from temporary structures used in performing the work involved, and for discounts allowed and realized in the purchase of materials and supplies.

NOTE: The cost of individual items of equipment of small value (for example, \$500 or less) or of short life, including small portable tools and implements, shall not be charged to utility plant accounts unless the correctness of the accounting therefor is verified by current inventories. The cost shall be charged to the appropriate operating expense or clearing accounts, according to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as part of the cost of the construction.

(4) "Transportation" includes the cost of transporting employees, materials and supplies, tools, purchased equipment, and other work equipment (when not under own power) to and from points of construction. It includes amounts paid to others as well as the cost of operating the utility's own transportation equipment. (See item 5 following.)

(5) "Special machine service" includes the cost of labor (optional), materials and supplies, depreciation, and other expenses incurred in the maintenance, operation and use of special machines, such as steam shovels, pile drivers, derricks, ditchers, scrapers, material unloaders, and other labor saving machines; also expenditures for rental maintenance and operation of machines of others. It does not include the cost of small tools and other individual items of small value or short life which are included in the cost of materials and supplies. (See item 3, above.) When a particular construction job requires the use for an extended period of time of special machines, transportation or other equipment, the net book cost thereof, less the appraised or salvage value at time of release from the job, shall be included in the cost of construction.

(6) "Shop service" includes the proportion of the expense of the utility's shop department assignable to construction work except that the cost of fabricated materials from the utility's shop shall be included in "materials and supplies."

(7) "Protection" includes the cost of protecting the utility's property from fire or other casualties and the cost of preventing damages to others, or to the property of others, including payments for discovery or extinguishment of fires, cost of apprehending and prosecuting incendiaries, witness fees in relation thereto, amounts paid to municipalities and others for fire protection, and other analogous items of expenditures in connection with construction work.

(8) "Injuries and damages" includes expenditures or losses in connection with the construction work on account of injuries to persons and damages to the property of others; also the cost of investigation of and defense against actions for such injuries and damages. Insurance recovered or recoverable on account of compensation paid for injuries to persons incident to construction shall be credited to the account or accounts to which such compensation is charged. Insurance recovered or recoverable on account of property damages incident to construction shall be credited to the account or accounts charged with the cost of the damages.

(9) "Privileges and permits" includes payments for and expenses incurred in securing temporary privileges, permits or rights in connection with construction work, such as for the use of private or public property, streets, or highways, but it does not include rents, or amounts chargeable as franchises and consents for which see account 302, Franchises and Consents.

(10) "Rents" includes amounts paid for the use of construction quarters and office space occupied by construction forces and amounts properly includible in construction costs for such facilities jointly used.

(11) "Engineering and supervision" includes the portion of the pay and expenses of engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work.

(12) "General administration capitalized" includes the portion of the pay and expenses of the general officers and administrative and general expenses applicable to construction work.

(13) "Engineering services" includes amounts paid to other companies, firms, or individuals engaged by the utility to plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in connection with construction work.

(14) "Insurance" includes premiums paid or amounts provided or reserved as self-insurance for the protection against loss and damages in connection with construction, by fire or other casualty, injury to or death of persons other than employees, damages to property of others, defalcation of employees and agents, and the nonperformance of contractual obligations of others. It does not include workmen's compensation or similar insurance on employees included as "labor" in item 2, above.

(15) "Law expenditures" includes the general law expenditures incurred in connection with construction and the court and legal costs directly related thereto, other than law expenses included in protection, item 7, and in injuries and damages, item 8.

(16) "Taxes" includes taxes on physical property (including land) during the period of construction and other taxes properly includible in construction costs before the facilities become available for service.

(17) "Allowance for funds used during construction" includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed without prior approval of the Commission allowances computed in accordance with the formula prescribed in paragraph (a) below, except when such other funds are used for exploration and development or leases acquired after October 7, 1969, no allowance on such other funds shall be included in these accounts. No allowance for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

(a) The formula and elements for the computation of the allowance for funds used during construction shall be:

$$A_1 = s \left(\frac{S}{W} \right) + d \left(\frac{D}{D+P+C} \right) \left(1 - \frac{S}{W} \right)$$

$$A_e = \left[1 - \frac{S}{W} \right] \left[p \left(\frac{P}{D+P+C} \right) + c \left(\frac{C}{D+P+C} \right) \right]$$

[View or download PDF](#)

A_1 =Gross allowance for borrowed funds used during construction rate.

A_e =Allowance for other funds used during construction rate.

S =Average short-term debt.

s =Short-term debt interest rate.

D =Long-term debt.

d =Long-term debt interest rate.

P =Preferred stock.

p =Preferred stock cost rate.

C =Common equity.

c =Common equity cost rate.

W =Average balance in construction work in progress less asset retirement costs (See General Instruction 24) related to plant under construction.

(b) The rates shall be determined annually. The balances for long-term debt, preferred stock and common equity shall be the actual book balances as of the end of the prior year. The cost rates for long-term debt and preferred stock shall be the weighted average cost determined in the manner indicated in subpart D of part 154 of the Commission's Regulations Under the Natural Gas Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdiction. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress shall be estimated for the current year with appropriate adjustments as actual data becomes available.

NOTE: When a part only of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation, or ready for service, shall be treated as "Gas Utility Plant" and allowance for funds used during construction thereon as a charge to construction shall cease. Allowance for funds used during construction on that part of the cost of the plant which is incomplete may be continued as a charge to construction until such time as it is placed in operation or is ready for service, except as limited in item 17, above.

(18) "Earnings and expenses during construction" includes (a) all revenues derived during the construction period from property which is included in the cost of a project under construction and (b) all expenses which are attributable to the revenues received.

(19) "Training costs". When it is necessary that employees be trained to operate or maintain plant facilities that are being constructed and such facilities are not conventional in nature or are new to the company's operations, these costs may be capitalized as a component of construction cost. Once plant is placed in service, the capitalization of training costs shall cease, and subsequent training costs shall be expensed. (See Operating Expense Instruction 4.)

(20) "Line pack gas." Line pack includes the first cost of that quantity of gas introduced into the utility's system necessary to bring the system up to its designed operating capacity or increases therein and which must be maintained in the system in order to sustain such design operating capacity.

(21) LNG "heel" is the first cost of that minimum quantity of liquefied natural gas necessary to be retained in holding tanks and other facilities for purposes of temperature and/or pressure maintenance.

(22) "Studies" includes the costs of studies such as operational, safety or environmental studies relative to plant under construction. Studies mandated by regulatory bodies relative to facilities in service, shall be charged to Account 183.2, Other Preliminary Survey and Investigation Charges.

(23) "Asset retirement costs." The costs recognized as a result of asset retirement obligations incurred during the construction and testing of utility plant shall constitute a component of construction costs.

**Code of Federal Regulations (CFR), Title 18; Part 201, Gas Plant Instruction 4:
Overhead Construction Costs (as of October 1, 2014)**

4. *Overhead construction costs.* A. All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.

B. As far as practicable, the determination of pay roll charges includible in construction overheads shall be based on time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.

C. The record supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each utility plant account, and the bases of distribution of such costs.

Links to other Plant Accounting Support:

The FERC Gas Plant Accounts and descriptions can be found in the Electronic Code of Federal Regulations (Title 18, Chapter 1, Subchapter F – Part 201 Uniform System of Accounts Prescribed for Natural Gas Companies) at the following web address <http://www.ecfr.gov>.

The Capital Maintenance Manual, which is updated by the Plant Accounting department, can be found on the shared drive at S:\PLANT ACCOUNTING\Capital Maintenance Document.

Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-08
Page 1 of 2

REQUEST:

Refer to WKG's COSSW, Schedule E, page 17, and its 2013, 2014, and 2015 annual reports.

- a. Account 816, Wells Expenses, was \$78,868 in 2015. The Wells Expense for earlier years shown in the annual reports was (\$4,718) in 2012, \$63,614 in 2013, and \$340,004 in 2014.
 - (1) Explain fluctuations of this magnitude in Wells Expense and why WKG believes the 2015 amount should be used for ratemaking purposes.
 - (2) Provide a detailed breakdown of Wells Expense for 2015.
- b. Account 920, Administrative and General Salaries, has increased from \$127,447 in 2012 to \$190,314 in 2015. Provide the number of employees and salary of each employee for each year from 2012 through 2015.
- c. Account 923, Outside Services Employed ("Account 923"), was \$583,910 in 2015. The amount for Outside Services Employed for earlier years shown in the annual reports was \$65,828 in 2012, \$52,206 in 2013, and \$42,647 in 2014.
 - (1) Explain fluctuations of this magnitude in Account 923 and why WKG believes the 2015 amount should be used for ratemaking purposes.
 - (2) Provide a detailed breakdown of the amount reported in Account 923 for 2015, which identifies each vendor, the service provided by the vendor, and the amount paid to each vendor.
- d. Provide the monthly charges to Accounts 816 and 923 for the months available in 2016.

RESPONSE:

- a)
 - (1) Excluding well workovers, the Company expects to see approximately \$80,000 a year in expenses related to wells expense. Each well workover done adds \$80,000-\$100,000 in expense during that calendar year. Calendar year 2012 saw little work done on wells and included a credit memo for a \$12,561 invoice that was double paid the prior year. Calendar year 2014 included three well workovers at \$80,000 each. As shown in the Attachment 1, the well workover expense was charged to account 9230 in 2015.

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- (2) Please see Attachment 1 for the calendar year 2015 account 816 and 923 detail.

- b) Please see Attachment 2 for the salaries of employees charging time to WKG Storage, Inc. at December 31, 2012, December 31, 2013, December 31, 2014 and December 31, 2015.

- c)
 - (1) In calendar year 2015, the Company did several well workovers and plugged some wells. As noted in response to subpart (a), the well workovers were charged to account 816 in 2014. WKG Storage, Inc. plans to continue to experience well workover as well as well plugging expense in calendar year 2016 and/or calendar year 2017 therefore the 2015 level of expense is appropriate for ratemaking purposes.

 - (2) Please see Attachment 1 for the calendar year 2015 account 923 detail.

- d) For Account 8160, there was one charge in January 2016 for \$175 to sub account 02005-non-inventory supplies. There were no charges in February 2016. For Account 9230, there were no charges in either January 2016 or February 2016 as well workover work is typically done during the summer months.

ATTACHMENTS:

ATTACHMENT 1 - WKG Storage, Inc., Staff_1-08_Att1 - CY15 Accounts 816 and 923.xlsx, 3 Pages.

ATTACHMENT 2 - WKG Storage, Inc., Staff_1-08_Att2 - Employees Salaries CY12-CY15.xlsx, 1 Page.

Respondent: Joe Christian

WKG Storage, Inc.
Salaries of Employees Charging Time to WKG Storage, Inc.
at December 31, 2012, 2013, 2014, 2015

Employee	12/31/2012	12/31/2013	12/31/2014	12/31/2015
1	\$ 49,504	\$ 50,989	\$ 52,264	\$ 54,912
2	\$ 59,176	\$ 61,247	\$ 62,840	\$ 65,998
3	\$ 57,470	\$ 59,482	\$ 61,028	\$ 64,106
4	\$ 76,856	\$ 87,196	\$ 89,812	\$ 94,356
5	\$ 45,739	\$ 47,111	\$ 51,201	\$ 54,038
6*	\$ 56,264			

* Employee position was eliminated effective August 2012

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WKG Storage, Inc.
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Question No. 1-09
Page 1 of 1**

REQUEST:

Refer to WKG's COSSW, Schedule E-1 Expense, page 18. State whether the two adjustments regarding the Barnsley Project reflect the full amount of the costs related to the project incurred by WKG in 2015.

RESPONSE:

Yes. WP_E-1 Expense, page 18 is intended to reflect the removal of all the costs associated with the Barnsley storage field that were incorrectly charged to WKG Storage, Inc.

Respondent: Joe Christian

**Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-10
Page 1 of 1**

REQUEST:

Refer to WKG's C0SSW, Schedule F, page 21 , column g, line 82, and its 2015 annual report, page 114, column c, line 6. Explain why the two amounts are not the same.

RESPONSE:

The amount in the 2015 annual report, page 114, column c, line 6 reflects the total per book depreciation expense recorded in the Test Year Ending December 31, 2015. The amount reflected on Schedule F, page 21, column g, line 82 is an annualized proforma calculation of depreciation expense using the plant balances ending December 31, 2015 multiplied by the current depreciation rates.

Respondent: Joe Christian

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WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-11
Page 1 of 1

REQUEST:

Refer to WKG's COSSW, Schedule F, page 21, and WP F, page 22. Explain whether any depreciation rates were changed during 2015 or if any of the proposed depreciation rates reflect a change from the rates in effect in 2015.

RESPONSE:

The depreciation rates did not change during 2015 and the although Column (f) is labeled "Proposed Rates" the Company has not proposed to change any depreciation rates for WKG Storage, Inc. as part of this proceeding.

Respondent: Joe Christian

Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-12
Page 1 of 1

REQUEST:

Refer to WKG's COSSW, Schedule G, page 23.

- a. State whether the ad valorem tax of \$17,100 represents WKG's total ad valorem tax for 2015.
- b. If the response to a. above is negative, provide the total amount of WKG's 2015 ad valorem tax.
- c. Provide the amount of ad valorem tax paid for each of the years 2012 through 2014.

RESPONSE:

- a) The \$17,100 represents WKG Storage, Inc.'s ad valorem tax for calendar year 2015.
- b) Not applicable.
- c)

CY 2012	\$ 7,518
CY 2013	\$25,271
CY 2014	\$18,000

Respondent: Joe Christian

Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-13
Page 1 of 1

REQUEST:

Refer to WKG's COSSW, Schedule I, page 25.

- a. Footnote 1 states that the "Capital Structure and Cost of Debt are December 31 , 2015 13 mo average book balances." The balance sheet in WKG's 2015 annual report shows no debt balance at either the beginning or end of the year. Provide the source of the capital structure on page 25, explain why it includes no short-term debt, and why it should be used for ratemaking purposes.
- b. Explain whether WKG was aware, that in cases filed pursuant to the Alternative Filing Regulation by small investor-owned utilities with atypical capital structures, the Commission typically determines the utility's revenue requirement using an 88 percent operating ratio calculation.

RESPONSE:

- a) Please see Attachment 1 for the source of the capital structure utilized on Schedule I. As shown in the attachment, the Company has utilized the calendar year average consolidated capital structure of Atmos Energy Corporation, which includes the 12 month average daily short-term debt balance. The Company has utilized the corporate parent capital structure because this is the sole source of capital for WKG Storage, Inc. and is a reasonable proxy for the ratemaking capital structure in this proceeding. The Company utilized a return on equity (ROE) of 9.80% because this is the most recently approved ROE for Atmos Energy Corporation's distribution operations in Kentucky.
- b) WKG Storage, Inc. was not aware that the Commission typically determines the utilities revenue requirement using an 88 percent operating ratio calculation. Given that WKG Storage, Inc. is a wholly owned indirect subsidiary of Atmos Energy Corporation, which is primarily in the natural gas distribution business, the Company does not believe that the utilization of the 88 percent operating ratio calculation in this instance is necessary.

ATTACHMENT:

ATTACHMENT 1 - WKG Storage, Inc., Staff_1-13_Att1 - WKG Storage Capital Structure.xlsx, 1 Page.

Respondent: Joe Christian

Atmos Energy Corp. - Consolidated
Capital Structure and Proforma Cost of Capital

13 Month Average at December 31, 2015

Line No.	Description	Capital	Ratio	Cost Rate	Proforma Wtd Cost of Capital
	(a)	(b)	(c)	(d)	(e)
Atmos Energy Corp., Consolidated:					
1	Long Term Debt Capital	\$2,455,302,565	41.10%	5.90%	2.42%
2	12 Mo Avg. Short Term Debt	\$341,935,120	5.72%	1.09%	0.06%
3	Equity Capital	\$3,177,441,930	53.18%	9.80%	5.21%
4	Total Capital	<u>\$5,974,679,615</u>	<u>100.00%</u>		<u>7.70%</u>

	Debt Only	Cost Rate	Weighted Cost
5 Long Term Debt Capital	\$ 2,455,302,565	5.90%	\$ 144,873,594
6 Short Term Debt	341,935,120	1.09%	3,743,362
7 Weighted Rate	<u>\$ 2,797,237,685</u>	5.31%	<u>\$ 148,616,956</u>

**Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-14
Page 1 of 1**

REQUEST:

Refer to the balance sheets and income statements in WKG's 2013, 2014, and 2015 annual reports. Explain why most of the assets are recorded as non-utility property, but revenues and expenses are recorded as operating revenue and expense.

RESPONSE:

When the assets were recorded in 2001, they were recorded to non-utility property Account 121 as the assets are held in the legal entity WKG Storage, Inc. which is part of our non-regulated subsidiary Atmos Energy Holdings.

The storage demand fees charged by WKG Storage, Inc. are recorded within our purchased gas cost accounts in our Kentucky distribution operations (Div 009) as these demand fees are necessary in providing a reliable gas supply to our distribution customers in Kentucky. The storage demand fees are charged to account 495-Other Gas Revenues in WKG Storage, Inc., which offsets the amounts recorded in our Kentucky distribution operations on a Total Company basis and results in no impact to our consolidated gas margin. If the demand fees were recorded to gas cost in our distribution operations but as non-utility revenue for WKG Storage, Inc. then the demand fees would not properly offset in our Total Company gas margin.

The Company records operation and maintenance expenses incurred by WKG Storage, Inc. to FERC accounts 700-932 in order to track expenses by FERC description. This is consistent with how the Company records operation and maintenance expenses for its other non-regulated entities.

Respondent: Joe Christian

**Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-15
Page 1 of 1**

REQUEST:

Refer to the 2015 annual report, page 110, lines 14 and 33.

- a. Explain why Account 121, Nonutility Property, declined \$340,000, from \$14,489,264 to \$14,159,264, from the beginning to the end of 2015.
- b. Explain why Account 146, Accounts Receivable from Associated Companies, went from negative 310,840 to negative 45,623, from the beginning to the end of 2015.

RESPONSE:

- a) The decrease of \$330,000 in Account 1210 was due to asset impairments recognized in September 2015. The assets, consisting of approximately eight storage wells and seven miles of 6-inch pipeline, were impaired due to an inability to sell or otherwise recover the cost of these assets.
- b) In our Oracle general ledger system, our regulated business units and non-regulated entities are separated into Companies. For example, Shared Services is Company 010, the Kentucky/Mid-States Division is Company 050, and WKG Storage, Inc. is Company 233. Account 1460 is used in Oracle to keep each Company balanced. As an example, as cash balances are primarily held in Shared Services, if we have expenses incurred in Co 233 (WKG Storage, Inc.) but paid out of a Co 010 (Shared Services) cash account our books on an individual company basis would be out of balance. In this scenario, system generated journal entries would be made in Oracle to Account 1460 to keep Co 010 and Co 233 in balance. For each individual company, Account 1460 will fluctuate from year to year based on these system generated journal entries. On a total company basis, the balance in Account 1460 is zero.

Respondent: Joe Christian

Case No. 2016-00053
WKG Storage, Inc.
Staff RFI Set No. 1
Question No. 1-16
Page 1 of 1

REQUEST:

Refer to the 2015 annual report, page 11 2, lines 33 and 38.

- a. Explain why Account 232, Accounts Payable, increased from \$36,486 to \$507,235, from the beginning to the end of 2015.
- b. Explain why Account 234, Taxes Accrued, went from positive \$123,706 to negative \$134,460, from the beginning to the end of 2015.

RESPONSE:

- a) In September 2015, we accrued \$725,000 for various projects. As we have incurred these costs, we have taken them against the accrual instead of the income statement. Additionally, in January 2016, we realized a portion of that accrual should be on another company's (Barnsley Storage) books. The balance that should be on the books for Company 233 at December 2015 is \$216,420, which is related to the accrual.
- b) The Company assumes that the reference to Account 234 should be Account 236. For account 2360-25114, State Franchise Tax Accrual, budgeted franchise tax is accrued in this account on a monthly basis. There was no change in this account from December 2014 through September 2015 because the Company did not estimate owing any franchise taxes for WKG Storage during fiscal year 2015. The accruals recorded in October through December were for budgeted fiscal 2016 franchise taxes.

For accounts 2360-26501, Federal Income Tax Accrual, and 2360-26503, State Income Tax Accrual, state and federal taxes are recorded quarterly by the tax department. At non quarter end months, the estimated effective tax rate calculated at the previous quarter end is applied to pre-tax book income. At year end a full and detailed estimate of tax expense is calculated. This calculation resulted in a debit to the federal income tax payable in September 2015.

Respondent: Joe Christian