

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ATMOS)	
ENERGY CORPORATION TO ESTABLISH PRP)	CASE NO.
RIDER RATES FOR THE TWELVE MONTH)	2022-00222
PERIOD BEGINNING OCTOBER 1, 2022)	

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO ATMOS ENERGY CORPORATION

Atmos Energy Corporation (Atmos), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested is due on September 16, 2022. The Commission directs Atmos to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Atmos shall make timely amendment to any prior response if Atmos obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Atmos fails or refuses to furnish all or part of the requested information, Atmos shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

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

1. Refer to the Application, Direct Testimony of Dylan W. D'Ascendis (D'Ascendis Testimony), Table 1, page 3. Also refer to the Commission's May 19, 2022 Order in Case No. 2021-00214,² pages 36-39.

a. In light of the Commission's Order in Case No. 2021-00214, explain the reasonableness of a common equity ratio of 54.5 percent.

² See Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates*, (Ky. PSC May 19, 2022), Order.

b. Provide the supporting documentation for a short term debt cost rate of 80.94 percent.

2. Refer to D'Ascendis Testimony, pages 4-5. Also refer also to the Commission's May 19, 2022 Order in Case No. 2021-00214, page 48. In light of the Commission's Order in Case No. 2021-00214, explain the reasonableness of a return on equity (ROE) of 10.95 percent, as compared to Atmos's recently authorized ROE of 9.23 percent for base rates and 9.13 for its natural gas capital rider.

3. Refer to D'Ascendis Testimony, page 26 lines 8-22 and page 27 lines 1-10. Explain how current yields on Atmos's and the proxy groups' bonds compare to the expected bond yield of 5.30 percent.

4. Refer to D'Ascendis Testimony, page 33.

a. Explain how the S&P Utilities index including the number of companies included in the index, compares with the S&P 500 index.

b. Explain how successive truncations of the market upon which risk premium calculations are made from the Value Line total market to the S&P 500 market to the S&P Utilities Index is valid for calculating the appropriate Atmos Pipeline Replacement Rider (PRP) risk premium.

5. Refer to D'Ascendis Testimony, pages 34-35 and Exhibit DWD-3, pages 7 and 13. In Exhibit DW-3, page 13, there appears to be wide variation of risk premiums for given A2 rated Moody's bond yields which reflects wide variations in regulatory commission decisions. Explain why the use of implied risk premiums based on fully litigated authorized ROE decisions is valid for calculating the appropriate Atmos PRP risk premium in Kentucky.

6. Refer to D'Ascendis Testimony, Exhibit DWD-3, page 4. Provide an update to the calculations on this page by including the months of June and July 2022.

7. Refer to D'Ascendis Testimony, Exhibit DWD-3, page 9.

a. Referring to footnotes 4 and 6, explain the difference between the Value Line Summary and Index and the S&P 500.

b. Explain whether Bloomberg Professional Service has an index or compilation of companies similar to Value Line's Summary and Index and, if so, provide a calculations updating Footnote 6 using that index as opposed to the S&P 500.

c. Refer to footnote 7. Explain why it is appropriate to average the median and mean values as opposed to using one or the other.

8. Refer to the Application, D'Ascendis Testimony, Exhibit DWD-4, pages 1-2.

a. Explain the differences between Bloomberg and Value Line derived beta values including the time periods used in their respective derivation.

b. Aside from Value Line and Bloomberg, explain whether beta values may be obtained from additional sources, such as Yahoo! Finance, and if so, explain why it would not be appropriate to use those beta values in addition to those used in the current analysis.

c. Explain why current 30-year Treasuries are not used as the risk free rate also, since an investor must have an expectation of inflation and other future conditions in order to be induced to lend money for an extended period of time.

9. Refer to the Direct Testimony of Ryan Austin (Austin Testimony), pages 4-8.

a. Explain whether the deteriorated tracer wire is a concern for all Aldyl-A replacement projects or only select sections.

b. Explain whether locating pipes with deteriorated tracer wire has caused any construction delay concerns with the affected pipe sections.

c. State whether the two projects to replace Aldyl-A pipes in Cadiz, Kentucky will complete Atmos's replacement projects for Cadiz. If not, provide a complete list of the remaining Aldyl-A replacement projects.

d. Explain whether Atmos has selected the next areas for Aldyl-A replacement projects after replacement for Cadiz and St. Charles, Kentucky is completed.

10. Refer to the Auston Testimony, page 8.

a. Provide the leak rates for Atmos's system by pipe material for the last three years.

b. Provide a breakdown of Atmos's system by pipe material for the last three years.

11. Refer to the Application, Pipeline Replacement Program Filing, Exhibit B-1.

a. Explain how Atmos projected the in service dates for the projects used to calculate the 13-month average for plant in service in Line No. 1 of Exhibit B-1.

b. State whether the changes to rate base, including the additions to plant in service and removal of accumulated depreciation, in October, November, and December 2022 were not included in rate base used to set base rates in Case No. 2021-00214, and if so, explain how Atmos ensured that those rate base changes were not included in base rates.

c. Explain how Atmos projected monthly “Retirements,” “Cost of Removal,” and “Accumulated Depreciation” on Line Nos. 2, 10, and 11 of Exhibit B-1, state whether Atmos used the same method it used for base rates in Case No. 2021-00214, and explain why Atmos contends its method is reasonable.

12. Refer to the Application, Pipeline Replacement Program Filing, Exhibit B-2 and Exhibit B-3. Explain why Atmos included a true-up for PRP projects that have been rolled-into base rates.

13. Refer to the Application, Pipeline Replacement Program Filing, Exhibit F.

a. Confirm that the timing differences reflected in FXA01 on Line No. 3 of Exhibit F arose from differences in the manner in which projects were capitalized for book purposes and expensed for tax purposes pursuant to 26 U.S.C.A. § 162. If this cannot be confirmed, explain why and identify the tax regulations and statutes that gave rise to the timing differences reflected in FXA01.

b. Confirm that the timing differences reflected in FXA01 on Line No. 3 of Exhibit F are not subject to federal normalization rules. If this cannot be confirmed, explain why and identify any applicable statute, regulation, or decision that supports your contention.

c. Explain what gave rise to the timing differences reflected in FXA02 on Line No. 17 of Exhibit F.

d. Explain each basis for the statement in Exhibit F that “[b]ecause the Company is in a NOLC position, the total change in ADIT must equal the tax expenses included in revenue requirement.”

e. Confirm that expenses in a current tax year will be used to offset federal income in the current tax year before any net operating loss carryforward (NOLC) from a previous tax year is used to offset income in the current year such that whether a utility has a NOLC from previous years is irrelevant to whether expenses in the current tax year will result in a net operating loss in the current year. If you are not able to confirm, explain why and identify any applicable statute, regulation, or decision that supports your position.

14. Confirm that Atmos projected that its regulated Kentucky operations would not be in a net operating loss position for federal tax purposes with the rates proposed in Case No. 2021-00214 but rather projected that deferred tax assets associated with NOLCs allocated to Atmos's Kentucky operations would be reduced by \$2.986 million.³ If this cannot be confirmed, explain why.

15. State whether Atmos's Kentucky operations, on a standalone basis, are expected to be in a net operating loss position with respect to federal tax expense for the year ending September 30, 2022, and the year ending September 30, 2023, and explain each basis for the response.

16. Provide the expected federal tax expense, on a standalone basis, for Atmos's Kentucky operations for the years ending September 30, 2022, and September 30, 2023, including all revenue and expenses for regulated operations, and provide all work papers showing how the expected tax expense was calculated in each year in Excel spreadsheet format with all formulas accessible and intact.

³ See Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates*, (Ky. PSC May 19, 2022), Order at 10.

17. Identify the dollar amount of all capital projects allocated to Atmos's Kentucky operations and included as an addition to plant in service for Atmos's Kentucky operations in each of the last four fiscal years ending September 30, 2021, and in each month so far of the fiscal year ending September 30, 2022.

18. Identify all projected capital expenditures for Atmos's Kentucky operations in the fiscal year ending September 30, 2023.

19. Identify and provide any current written agreement or cost allocation manual or policy indicating how tax expense is divided between Atmos's various divisions.



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DATED AUG 31 2022

cc: Parties of Record

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