

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	)	2025-00246
PERIOD BEGINNING OCTOBER 1, 2025	)	

ORDER

On July 31, 2025, Atmos Energy Corporation (Atmos) filed an application and tariff to revise its Pipeline Replacement Program (PRP) rates for the 12-month period beginning October 1, 2025, based on a forecasted period ending September 30, 2026.<sup>1</sup> On August 25, 2025, the Attorney General of the Commonwealth of Kentucky, through the Office of Rate Intervention (Attorney General) moved to intervene, and the Commission granted the Attorney General's intervention on September 9, 2025.<sup>2</sup> On September 15, 2025, the Commission suspended the rates for one day, to October 2, 2025, to ensure the orderly investigation of Atmos' application and proposed tariff.<sup>3</sup> Pursuant to KRS 278.190(2), Atmos filed written notice to the Commission of its intention to place the suspended rates into effect on and after October 2, 2025, subject to refund, pending the final Order in this matter.<sup>4</sup> Atmos responded to two rounds of discovery from Commission Staff, and both Atmos and the Attorney General filed written comments in

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<sup>1</sup> Application (filed July 31, 2025) at 1.

<sup>2</sup> Order (Ky. PSC Sept. 9, 2025).

<sup>3</sup> Order (Ky. PSC Sept. 15, 2025).

<sup>4</sup> Notice of Intent to Place Rates into Effect (filed Sept. 22, 2025).

this matter.<sup>5</sup> On November 5, 2025, Atmos and the Attorney General jointly requested that this matter be resolved on the written record.<sup>6</sup> This matter now stands submitted for a decision.

### LEGAL STANDARD

KRS 278.030(1) states that “[e]very utility may demand, collect and receive fair, just and reasonable rates” for utility service. Pursuant to KRS 278.509, the Commission may allow a utility to recover costs for investment in natural gas pipeline replacement programs that are not recovered in existing rates through a rider if the costs are fair, just, and reasonable. The burden of proof to show that an increased rate or charge is just and reasonable shall be upon the utility.<sup>7</sup>

### FINDINGS AND DISCUSSION

#### Revenue Requirement

In Atmos’ most recent rate case, Case No. 2024-00276,<sup>8</sup> the Commission established a new authorized Return on Equity (ROE) of 9.65 percent for Atmos' natural gas capital riders (which includes the PRP).<sup>9</sup> Pursuant to the final Order in that proceeding, Atmos is required to utilize the newly approved ROE and capital structure in calculating the revenue requirement for its PRP rider rates in the current filing.<sup>10</sup>

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<sup>5</sup> Atmos’ Response to Commission Staff’s First Request of Information (Staff’s First Request) (filed Sept. 22, 2025); Atmos’ Response to Commission Staff’s Second Request of Information (Staff’s Second Request) (filed Nov. 4, 2025).

<sup>6</sup> Joint Request to Submit (filed Nov. 5, 2025).

<sup>7</sup> KRS 278.190(3).

<sup>8</sup> Case No. 2024-00276, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates; Approval of Tariff Revisions; and Other General Relief* (Ky. PSC Aug. 11, 2025).

<sup>9</sup> Case No. 2024-00276, Aug. 11, 2025 Order at 38.

<sup>10</sup> Atmos’ Response to Staff’s First Request, Item 1, Excel Spreadsheet, Exhibit G.

In Case No. 2024-00276, Atmos also requested that it be permitted to include the replacement cost of Aldyl-A pipelines, which had previously been subject to a case by case review, in its PRP mechanism and requested that a \$30 million annual cap previously imposed on PRP projects be removed or increased.<sup>11</sup> In the final Order in that case, the Commission authorized Atmos to include the replacement cost of Aldyl-A projects in the PRP and increased the annual cap on PRP projects to \$40 million,<sup>12</sup> to keep up with cost increases and to expedite the replacement of both bare steel and Aldyl-A pipe. However, in doing so, the Commission expressed its expectation that Atmos will prioritize replacement projects based on potential safety risks and follow its federal Distribution Integrity Management Program (DIMP) and Transmission Integrity Management Program (TIMP) guidelines.<sup>13</sup>

Atmos' initial filing in this case was made prior to the final Order in Case No. 2024-00276 such that the revenue requirement in that filing was not calculated based on the return and cap on plant additions authorized in the final Order in that case. However, Atmos submitted a revised PRP revenue requirement calculation following the final Order in Case No. 2024-00276 reflecting the return and plant additions authorized by that Order.<sup>14</sup>

Atmos filed its revenue requirement calculations that show a PRP revenue requirement of \$14,987,175 based on its proposed ROE in the recent rate case, which is

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<sup>11</sup> Case No. 2024-00276, Aug. 11, 2025 Order at 57.

<sup>12</sup> Case No. 2024-00276, Aug. 11, 2025 Order at 60.

<sup>13</sup> Case No. 2024-00276 (Ky. PSC Aug. 11, 2025), Order at 59-60.

<sup>14</sup> Atmos' Response to Staff's First Request.

10.95 percent.<sup>15</sup> Atmos' revised revenue requirement calculation resulted in an updated PRP revenue requirement of \$12,571,627.<sup>16</sup> This revision was due to the different ROE that was approved in its recent rate case, replacing the originally proposed ROE.<sup>17</sup> However, in calculating that revenue requirement, Atmos included a deferred tax asset (DTA) in the rate base of about \$1.8 million to allegedly reflect net operating loss carryforwards (NOLC) allegedly arising from certain PRP plant additions as of September 2025 and in the forecasted PRP year, October 2025 to September 2026.

An NOLC DTA arises when Atmos incurs losses (negative taxable income), which creates a future tax benefit, essentially an asset. Federal tax law and Internal Revenue Service (IRS) guidance require that certain NOLC DTAs, specifically those that arise from accelerated tax depreciation, must be included in the utility's rate base. Including this asset in the rate base allows the utility to earn a return on it, which acts to increase the total revenue requirement paid by customers. The intent of this inclusion is to offset corresponding deferred tax liabilities (DTLs) (which reduce the rate base) that also arise from accelerated tax depreciation, thus reflecting the extent to which the accelerated tax expensing that gave rise to those liabilities could not actually be used to defer tax expense.<sup>18</sup>

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<sup>15</sup> Application, Exhibit B, Line 33 & Exhibit G, Line 3.

<sup>16</sup> Case No. 2025-00246, (filed on Sept 22, 2025), Response to Staff's First Request, Item 1, Excel spreadsheet, Exhibit B, Line 33

<sup>17</sup> Case No. 2024-00276, Aug. 11, 2025 Order at 50.

<sup>18</sup> Case No. 2024-00276, Aug. 11, 2025 Order at 7.

Prior to its 2021 rate case, Atmos tracked its NOLC DTA, on a consolidated company basis for all of Atmos' divisions.<sup>19</sup> Atmos recorded that NOLC DTA in Division 2, Account 190, and allocated a share of that NOLC DTA to its Kentucky operations using a cost allocation percentage.<sup>20</sup> Atmos then included NOLC DTA based on that allocation in the rate base for the test period.

In Atmos' 2021 rate case, Case No. 2021-00214, the Commission noted that the inclusion of NOLC DTAs arising from losses in other jurisdictions in rate base would not serve the purpose given by the IRS for accounting for NOLC, because losses that are not attributable to this jurisdiction could not have arisen from the accelerated depreciation of utility property in this jurisdiction and any deferred tax liabilities associated with losses in other jurisdictions are not offsetting rate base in Kentucky.<sup>21</sup> The Commission also expressed concern that significant taxable losses in other Atmos divisions could be unreasonably allocated to Kentucky customers based on Atmos' percentage method of allocating NOLC DTA to its various divisions.<sup>22</sup> Thus, the Commission stated that:

Atmos Kentucky must now track the generation and utilization of NOL ADIT for Kentucky in each fiscal year on a standalone basis based on the expenses incurred and revenue generated from regulated operations in Kentucky, including any revenue from Atmos Kentucky's performance-based rates, without regard to losses incurred by other jurisdictions. In future applications to increase base rates, Atmos Kentucky must file a report showing the generation and utilization of NOL ADIT

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<sup>19</sup> Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 19, 2022), Order at 8.

<sup>20</sup> Case No. 2024-00276, (filed Oct. 11, 2024), Application, Schedule B, Tab B.5 B.

<sup>21</sup> Case No. 2021-00214, June 24, 2022 Order at 10.

<sup>22</sup> Case No. 2021-00214, May 19, 2022 Order at 13–4; see also Case No. 2021-00183, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity, and Other Relief* (Ky. PSC Dec. 28, 2021) Order at 15

for Kentucky, since this Order is based on the expenses incurred and revenue generated from Kentucky operations. If Atmos Kentucky proposes to use a different method to reflect the generation and utilization of NOL ADIT for Kentucky in its revenue model in such cases, Atmos Kentucky must explain in detail why using that method would be reasonable.<sup>23</sup>

In Case No. 2024-00276, the Commission again indicated that tracking NOLC DTA on a Kentucky-specific basis is generally more reasonable and appropriate than using a percentage allocation method, which can unreasonably allocate losses from other jurisdictions to Kentucky customers. Due to concerns about the information provided in that case, the Commission found it reasonable to accept a compromise in which the percentage allocation method was used for determining the historical NOLC DTA balance prior to July 2024, while requiring Atmos, among other things, to continue tracking the generation and utilization of NOL DTA for Kentucky on a standalone basis in each fiscal year going forward.<sup>24</sup>

In this case, the Attorney General opposed Atmos' proposal to reduce the DTL offsetting the PRP rider rate base by a NOLC DTA. The Attorney General argued that the NOLC DTA is inherently a base revenue cost and that an increment to the NOLC DTA in the PRP rider is not reasonable or necessary to avoid an Internal Revenue Code (IRC) normalization violation.<sup>25</sup> The Attorney General indicated that the NOLC DTA is a complex ratemaking construct based on estimates and allocations from the consolidated tax return of Atmos Energy Corporation to the Kentucky division, and it is never true-up

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<sup>23</sup> Case No. 2021-00214, May 19, 2022 Order at 14.

<sup>24</sup> Case No. 2024-00276, Aug. 11, 2025 Order at 13, paragraph 2.

<sup>25</sup> Case No. 2025-00246, (filed Oct. 6, 2025) Attorney General's Comments at 1.

against actual amounts.<sup>26</sup> Furthermore, the Attorney General contended that Atmos' NOLC DTA is already included in the base revenue requirement in the recent rate case<sup>27</sup> and is significantly greater than the amount required to comply with the IRC normalization rules, which only apply to the NOLC DTA caused by tax depreciation in excess of book depreciation.<sup>28</sup>

The Commission has previously expressed concern regarding the lack of evidence connecting Atmos' proposed NOLC DTA to its actual net operating position in Kentucky and its PRP spending.<sup>29</sup> In Case 2022-00222, the Commission stated it would “not include any NOLC DTA in future PRP rate base absent specific, credible evidence that Atmos' Kentucky operations and its PRP spend actually generated NOLC DTA during the relevant period or that normalization rules would require it.”

The Attorney General asserts that the Company's methodology in the current case is analogous to adopting a tax rider for a cost that lacks a credible foundation and is not known or measurable.<sup>30</sup> The Attorney General indicated that the proposal would completely offset the DTL, which represents tax benefits belonging to customers, with a cumulative NOLC DTA increment that is not proven to be caused by the PRP investments.<sup>31</sup> Rejecting the Company's proposed methodology is recommended by the

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<sup>26</sup> Case No. 2025-00246, Attorney General's Comments at 1.

<sup>27</sup> Case No. 2024-00276, Aug. 11, 2025 Order at 7-15.

<sup>28</sup> Case No. 2025-00246, Attorney General's Comments at 4.

<sup>29</sup> See Case 2022-00222, *Electronic Application of Atmos Energy Corporation to Establish PRP Rider Rates for the Twelve Month Period Beginning October 1, 2022* (filed July 29, 2022) and Case No. 2023-00231 *Electronic Application of Atmos Energy Corporation for PRP Rider Rates Beginning October 1, 2023* (filed July 31, 2023).

<sup>30</sup> Case No. 2025-00246, Attorney General's Comments at 7.

<sup>31</sup> Case No. 2025-00246, Attorney General's Comments at 8.

Attorney General because it is “conceptually and irredeemably flawed,” factually incorrect, and will result in excessive and unreasonable PRP rider revenue requirements and rates.<sup>32</sup>

Atmos submitted comments to responding to the Attorney General’s comments regarding the application to establish PRP Rider rates.<sup>33</sup> Atmos, while disagreeing with the Attorney General’s preferred standalone Kentucky calculation method for the generation and utilization of NOLC DTA, accepted the Attorney General’s recommendation for the purpose of this case.

Atmos indicated that its acceptance of the Attorney General’s proposal is based on the fact that the NOLC DTA is included in the Company’s most recent general rate case<sup>34</sup> incorporated all of the Company’s taxable revenues and deductions, including both PRP and non-PRP activities through March 31, 2025. Furthermore, Atmos noted that it projects that its standalone revenues and expenses from both PRP and non-PRP activity will result in taxable income for the fiscal year ending September 30, 2026.<sup>35</sup> Due to these facts, Atmos agreed with the Attorney General’s comments for this proceeding.

The Commission agrees that the adjustment removing the NOLC DTAs from the PRP rider rate base as proposed by the Attorney General and accepted by Atmos. As Atmos acknowledged, the effects of Atmos’ net operating position through March 31, 2025 are included in the calculation of Atmos’ base revenue requirement. Further, Atmos

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<sup>32</sup> Case No. 2025-00246, Attorney General’s Comments at 7-8.

<sup>33</sup> Case No. 2025-00246, (filed Oct. 10, 2025), Atmos’ Comments in Response to the Attorney General’s Comments (Atmos’ Comments) at 1-2.

<sup>34</sup> Case No. 2025-00246 Atmos’ Comments at 2.

<sup>35</sup> See Atmos’ Response to Staff’s First Request, Item 1, Staff\_1-01\_Att1 – NOL Post-Hearing Update (CONFIDENTIAL).



asserted in this case that its standalone revenues and expenses from both PRP and non-PRP activity will result in taxable income for the fiscal year ending September 30, 2026.<sup>36</sup> Atmos calculated the 2026 13-month average cumulative deferred tax as (\$7,768,726)<sup>37</sup> and upon the Atmos' acceptance of the Attorney General's recommendation to remove the NOLC DTA, the Commission finds that \$1,806,478 in NOLC DTA and (\$3,078) proration impact on NOLC should be eliminated from Atmos' revenue requirement and rate calculation, which would increase the DTA offset in Line Number 12 of Exhibit B of Atmos' revenue model by \$(1,803,400) and would decrease the PRP revenue requirement by \$160,868.<sup>38</sup>

As discussed above, Atmos is proposing the same capital structure in this proceeding as was approved by the Commission in its recent rate case application, Case No. 2024-00276,<sup>39</sup> and used the 9.65 percent ROE approved in that case. Atmos also limited the PRP projects in the forecasted period to \$40 million consistent with the annual cap approved in that case and included Aldyl-A and bare steel projects consistent with its approved PRP. Thus, with the adjustment for NOL DTAs discussed above, the Commission finds that Atmos PRP revenue requirement is reasonable and consistent with its PRP tariff.

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<sup>36</sup> Case No. 2025-00246, Atmos' Comments at 2.

<sup>37</sup> Case No. 2025-00246, Atmos' Response to Staff's First Request, Item 1, Excel spreadsheet, Exhibit F.

<sup>38</sup> Reducing the net change to rate base by \$1,803,400 reduces the return component by \$128,050 and increases the pre-tax interest synchronization adjustment by \$8,719. These adjustments net to a reduction of \$160,868.

<sup>39</sup> Case No. 2025-00246, Atmos' Response to Staff's First Request, Item 1, Excel spreadsheet, Exhibit G.

With the adjustments discussed above, the Commission finds that Atmos' PRP net rate base is \$101,382,632 and its PRP revenue requirement is \$12,410,760 as shown in Appendix A.

### Rate Design

Atmos' most recent base rate case was approved by the Commission in Case No. 2024-00276.<sup>40</sup> Pursuant to Atmos' PRP Rider tariff, the rate class allocation of the PRP revenue requirement will be in proportion to the relative base revenue share approved in Atmos' most recently concluded base rate case.<sup>41</sup> The rates in Appendix B attached to this Order should produce PRP revenue requirement, with the adjustments discussed above, of \$12,410,760. The Commission finds that those rates are fair, just and reasonable, and should be approved for service.

The Commission recognizes that Atmos placed its proposed rates in this matter into effect, subject to refund, on October 2, 2025, during the pendency of this matter. Consequently, the Commission finds that Atmos should refund, within 60 days from the date of service of this Order, each of its customers all amounts collected for service rendered from October 2, 2025, that are in excess of the rates set forth in Appendix B attached to this Order. In addition, within 75 days from the date of service of this Order, Atmos should also file a written report into the case record that describes its efforts to refund all monies collected in excess of the rates that are set forth in Appendix B to this Order. Finally, following the filing of the written report, the Commission reserves its right

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<sup>40</sup> Case No. 2024-00276, Aug. 11, 2025 Order at 68.

<sup>41</sup> PSC KY No. 2, Second Revised Sheet No. 38.

to initiate an investigation to determine whether Atmos reasonably refunded all monies collected in excess of the rates that are set forth in Appendix B to this Order.


IT IS THEREFORE ORDERED that:

1. The PRP rates proposed by Atmos are denied.
2. The PRP rates in Appendix B to this Order are approved for service rendered by Atmos on and after October 2, 2025.
3. Atmos may use the PRP ROE approved in its most recent general rate case, as of the time it makes its PRP filing, in its future PRP filing without filing ROE testimony, unless and until the Commission orders otherwise.
4. Within 20 days of the date of entry of this Order, Atmos shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.
5. Within 60 days of the date of service of this Order, Atmos shall refund to its customers all amounts collected for service rendered from October 2, 2025, that are in excess of the rates set forth in Appendix B herein attached to this Order.
6. Within 75 days of the date of service of this Order, Atmos shall submit a written report to the Commission in which it describes its efforts to refund all monies collected in excess of the rates that are set forth in Appendix B to this Order.
7. The Commission reserves its right to initiate an investigation to determine whether Atmos reasonably refunded all monies collected in excess of the rates that are set forth in Appendix B to this Order should the Commission deem it necessary.
8. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Commissioner

  
Commissioner

ATTEST:

  
Executive Director



Case No. 2025-00246

# APPENDIX A

## APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00246 DATED DEC 17 2025

Line Number	Description	Total
1	Project Additions	\$ 107,540,620
2	Project Retirements	\$ (18,266,052)
3	<b>Net Change to Gross Plant</b>	<u>\$ 89,274,569</u>
4		
5	Cost of Removal to Accumulated Depr.	\$ 4,213,180
6	Retirements from Accumulated Depr.	18,266,052
7	Depreciation Accrual to Accumulated Depr.	(2,599,364)
8	<b>Net Change to Accumulated Depreciation</b>	<u>19,879,868</u>
9		
10	<b>Net Change to Net Plant</b>	\$ 109,154,437
11		
12	Accumulated Deferred Income Taxes	(7,768,726)
13	<b>Net Change to Rate Base</b>	<u>101,385,710</u>
14		
15	Rate of Return	<u>7.10%</u>
16	<b>Required Operating Income</b>	7,198,886
17		
18	Depreciation & Amortization Expense	1,530,660
19	O&M Savings	(17,686)
20	Ad Valorem Tax Increase	1,175,840
21	Income Taxes on Cost of Service Items	(670,859)
22	Income Taxes on Adjusted Interest Expense	(490,166)
23	<b>Operating Income at Present Rates</b>	<u>\$ 1,527,789</u>
24		
25	Deficiency	\$ 8,726,674
26	Tax Factor	74.18%
27	<b>Total Rate Adjustment</b>	<u>\$ 11,764,220</u>
28		
29	Project Cost True-up	\$ 88,786
30	Revenue Recovery True-up	\$ 557,753
31	<b>Total True-up</b>	<u>\$ 646,539</u>
32		
33	<b>Total Rate Adjustment</b>	\$ 12,410,760
34		
35	Prior Approved Rate Adjustment*	\$ 7,741,241
36		
37	Increase in Rate Adjustment from Previous Year (Line 33 - Line 35)	\$ 4,669,519
38		
39	Note: This is the 2024 PRP Rate Adjustment as approved in Case No. 2023-00231	

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00246 DATED DEC 17 2025

The following rates and charges are prescribed for the customers in the area served by Atmos Energy Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

#### Pipeline Replacement Program Rider Rates

		<b>Prior</b> <u>Distribution</u> <u>Charge per</u> <u>Mcf</u>	<b>Proposed</b> <u>Distribution</u> <u>Charge per</u> <u>Mcf</u>	<b>Staff</b> <u>Distribution</u> <u>Charge per</u> <u>Mcf</u>
Rate G-1 (Residential)	1-300 Mcf	\$ 0.4256	0.6884	0.6796
	301-15,000 Mcf	\$ 0.4256	0.6884	0.6796
	Over 15,000 Mcf	\$ 0.4256	0.6884	0.6796
Rate G-1 (Non-Residential)	1-300 Mcf	\$ 0.3120	0.4879	0.4817
	301-15,000 Mcf	\$ 0.2169	0.3392	0.3348
	Over 15,000 Mcf	\$ 0.2169	0.3392	0.3348
Rate G-2	1-15,000 Mcf	\$ 0.1257	0.1323	0.1306
	Over 15,000 Mcf	\$ 0.1031	0.1085	0.1071
Rate T-3	1-15,000 Mcf	\$ 0.0801	0.1411	0.1393
	Over 15,000 Mcf	\$ 0.0657	0.1157	0.1142
Rate T-4	1-300 Mcf	\$ 0.1217	0.2338	0.2308
	301-15,000 Mcf	\$ 0.0846	0.1625	0.1604
	Over 15,000 Mcf	\$ 0.0699	0.1342	0.1325

\*L. Allyson Honaker  
Honaker Law Office, PLLC  
1795 Alysheba Way  
Suite 1203  
Lexington, KY 40509

\*Meredith L. Cave  
Honaker Law Office, PLLC  
1795 Alysheba Way  
Suite 1203  
Lexington, KY 40509

\*Angela M Goad  
Assistant Attorney General  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KY 40601-8204

\*Michael West  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KY 40601-8204

\*Brannon Taylor  
Atmos Energy Corporation  
3275 Highland Pointe Drive  
Owensboro, KY 42303

\*Eric Wilen  
Atmos Energy Corporation  
3275 Highland Pointe Drive  
Owensboro, KY 42303

\*Heather Temple  
Honaker Law Office, PLLC  
1795 Alysheba Way  
Suite 1203  
Lexington, KY 40509

\*Toland Lacy  
Office of the Attorney General  
700 Capital Avenue  
Frankfort, KY 40601

\*John Horne  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KY 40601-8204

\*Lawrence W Cook  
Assistant Attorney General  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KY 40601-8204

\*Atmos Energy Corporation  
3275 Highland Pointe Drive  
Owensboro, KY 42303