

**Kentucky Office of Attorney General
Summary of OAG Revenue Requirement and Adjustments
Atmos Electric Corporation
Forecasted Test Period November 30, 2014**

**Revised Exhibit BCO-2
Revised Schedule A - 1**

A Line No.	B Description	C OAG Rev. Req.
1	Rate Base	229,875,011
2	ROR	7.63%
3	Required Return	17,539,463
4	Adjusted Net Income	15,852,654
5	Return Deficiency	1,686,809
6	Conversion Factor	1.647570
7	Required Revenue Increase	2,779,136

Kentucky Office of Attorney General
Detailed OAG Revenue Requirement and Adjustments
Atmos Electric Corporation
Forecasted Test Period November 30, 2014

Revised Exhibit BCO-2
Revised Schedule A - 2

A Line No.	B Description	C Atmos Revenue Requirement	D OAG	E Adj. Increase/(Decrease) No.	F Net Income Revised Adjustments	Adjustments
1	Rate Base	252,914,292	252,914,292	1	Remove duplicate CSS maintenance fees	\$ 51,262
2	OAG Adjustments		(23,039,281)	2	Remove 2.7% generic inflation factor adj.	\$ 496,907
3	Adjusted Rate Base	252,914,292	229,875,011	3	Adjust SSU and DGO allocated expenses	\$ 1,492,500
4	ROR (1)	8.53%	7.63%	4	Adjust payroll and benefits expense	\$ 1,170,291
5	Required Return	21,573,589	17,539,463	5	Remove 50% of Officer & Man. Incentives	\$ 582,228
6				6	Impute CSS cost savings - expense	\$ 97,599
7	Operating Revenues	155,374,969	155,374,969	7	NOLC - See below for capital adjustment	
8	Operating Expenses + Taxes	141,914,890	141,914,890	8	Reduce bad debt expense per OAG 1-152	\$ 25,048
9	Operating Net Income	13,460,079	13,460,079			
10	OAG Adjustments	-	2,392,575			
11	Adjusted Operating Net Income	13,460,079	15,852,654			
12						
13	Return Deficiency (Surplus)	8,113,510	1,686,809		Total Operating Adjustments	\$ 3,915,835
14	Revenue Conversion Factor	1.647570	1.647570		Effective Tax Rate	38.90%
15					Federal & State Income Tax	\$ (1,523,260)
16					Note 2 - Int. Synchronization	
17	Required Revenue Increase/(Decrease)	13,367,579	2,779,137		Adjustment to Net Income	\$ 2,392,575
18						
19	Revenue	100%	100%	7	Remove Net Operating Loss Carryforward	\$ (22,221,329)
20	Less: Uncollect. Exp.	-0.50%	-0.50%	7	Impute CSS cost savings - capital	\$ (426,751)
21	Less: PSC Fees	-0.1622%	-0.1622%	5	Remove 50% of Officer & Man. Incentives	\$ (391,201)
22	Net Revenues	99.337800%	99.337800%			
23	SIT Rate at 6%	-5.960268%	-5.960268%			
24	Income before Fed. Tax	93.377532%	93.377532%		Note 2 - Lead Lag True-Up	
25	Fed. Rate at 35%	-32.682100%	-32.682100%		Adjustments to Rate Base	\$ (23,039,281)
26	Operating Income %	60.695432%	60.695432%			
27	Gross Revenue Conversion Factor	1.647570	1.647570			
28	Effective Tax Rate	38.90%	38.90%			
29	Note 1 - OAG placeholder ROR				Note 2 - Int. synchronization and lead lagu subject to true-up	

**Kentucky Office of Attorney General
Remove Duplicate CSS Maintenance Fee
Atmos Electric Corporation
Forecasted Test Period November 30, 2014**

**Exhibit BCO-
Schedule A - 3**

A	B	C
Line	Description	Adjustment
1	OAG Adjustment - remove duplicate maint. fees on legacy CIS	<u>\$51,262</u>

Source: OAG 2-35(b) - Atmos admits to error for duplicate maintenance fees.

**Kentucky Office of Attorney General
Remove 2.7% Generic Inflation Factor
Atmos Electric Corporation
Forecasted Test Period November 30, 2014**

**Exhibit BCO-2
Schedule A - 4**

A	B	C
Line	Description	Amount
1	Source: Mr. Densman's Exhibit JCD-1 cited in OAG 2-51	
2	O&M Subject to Atmos' Inflation Adjustment:	
3	Vehicles & Equip	1,023,400
4	Materials & Supplies	728,046
5	Information Technologies	884,742
6	Telecom	575,631
7	Marketing	303,894
8	Directors & Shareholders & PR	280,098
9	Dues & Donations	203,382
10	Print & Postages	41,595
11	Travel & Entertainment	665,566
12	Training	113,112
13	Outside Services	4,413,095
14	Miscellaneous	(2,838,849)
15	<u>RateMaking Adjustments:</u>	
16	Advertising Adjustments	(72,801)
17	Club Expenses	(1,531)
18	Expense Report Exclusions	(61,908)
19	Rate Case Amortization	105,667
20	O&M Subtotal	\$ 6,363,138
21	Add back negative Miscellaneous Expenses credit amount	\$ 2,838,849
22	Total O&M Expenses subject to Inflation Factor	\$ 9,201,987
23	Atmos General Inflation Factor 2.7%	2.70%
24	Atmos' Estimated Inflation Factor Impact - Forecasted Test Period	\$ 248,454
25	Atmos' Estimated Inflation Factor Impact - Base Period (Note 1)	\$ 248,454
26	OAG Total Adjustment to Remove Inflation Factor of 2.7%	\$ 496,907
27		
28	O&M Not Subject to Atmos' Inflation Adjustment:	
29	Labor	10,154,900
30	Employee Welfare	2,020,881
31	Benefits	5,525,993
32	Insurance (subject to 5% increase, not 2.7% increase)	1,104,442
33	Rent, Maint., & Utilities	1,232,544
34	Provision for Bad Debt	324,479
35	<u>RateMaking Adjustments:</u>	
36	Leases	(28,687)
37	O&M Not Subject to Atmos' Inflation Adjustment	\$ 20,334,552
38		
39	Reconciliation to Atmos' Adjusted O&M Costs:	
40	O&M Not Subject to Inflation Adjustment Above	20,334,552
41	O&M Subject to Inflation Adjustment Above	6,363,138
42	Total O&M per Schedule C.1, page 1	\$ 26,697,690

43
44 Note 1: The forecasted test period inflation factor adjustment was used as a surrogate
45 for the base period because Atmos did not provide supporting documentation or
46 calculations for this adjustment.

**Kentucky Office of Attorney General
 Adjust SSU and DGO Allocated Expenses
 Atmos Electric Corporation
 Forecasted Test Period November 30, 2014**

**Exhibit BCO-2
 Schedule A - 5**

A	B	C	D	E	F	G	H	I	J	
Line										
1									Atmos	
2									Adjustments -	
3									Actual 2012	
4		Most Recent Five Calendar Years					Base Year	Forecast	to Forecasted	
5		2008	2009	2010	2011	2012	7/31/2013	Test Year	Test Year	
6	Direct O&M - KY	\$12,734	\$14,181	\$11,226	\$13,366	\$12,980	\$13,892	\$13,626		
7	Change Prior Yr.		\$1,447	(\$2,955)	\$2,140	(\$386)	\$912	(\$266)	\$646	
8	% Change		11%	-21%	19%	-3%	7%	-2%	5%	
9										
10	SSU + DGO	\$10,253	\$10,071	\$9,668	\$9,412	\$10,086	\$10,877	\$13,071		
11	Change Prior Yr.		(\$182)	(\$403)	(\$256)	\$674	\$791	\$2,194	\$2,985	
12	% Change		-2%	-4%	-3%	7%	8%	20%	30%	
13										
14	Total Expenses	22,987	24,252	20,894	22,778	23,066	24,769	26,697		
15	Change Prior Yr.		\$1,265	(\$3,358)	\$1,884	\$288	\$1,703	\$1,928	\$3,631	
16	% Change		6%	-14%	9%	1%	7%	8%	14%	
17										
18	SSU and DGO - Atmos proposed increase for combined base and forecast test periods							\$2,985,000		
19	Disallow 50%							50%		
20	OAG Adjustment to remove excessive SSU and DGO allocated expenses							\$1,492,500		

Kentucky Office of Attorney General
Summary of Significant and Unusual Changes in SSU and DGO Expenses
Atmos Electric Corporations
Forecasted Test Period November 30, 2014

Exhibit BCO-2
Schedule A-6

		Source: OAG 1-154 Attachment 1				Base Period	
Line	Acct.	Description	2010	2011	2012	July 2013.	
1		SSU Expenses (Excluding Regular Payroll):					
2	9210	A&G-Office supplies & expense	Software Maintenance	1,102,035	789,099	2,174,663	7,321,080
3	9210	A&G-Office supplies & expense	Employee Broadcast and	0	0	0	531,808
4	9210	A&G-Office supplies & expense	Meals and Entertainment	505,671	605,692	525,203	655,451
5	9250	A&G-Injuries & damages	Insurance Reserve	5,000,000	(4,500,000)	2,000,000	3,300,000
6	9250	A&G-Injuries & damages	Insurance - D&O	8,956,686	10,829,810	12,717,310	3,421,169
7	9250	A&G-Injuries & damages	Insurance - Public Liability	0	0	0	10,459,032
8	9260	A&G-Employee pensions and benefits	Pension Benefits Load	0	0	4,222,286	5,838,280
9	9260	A&G-Employee pensions and benefits	FAS106 Benefits Load	0	0	3,144,028	3,942,786
10	9260	A&G-Employee pensions and benefits	FAS87 O&M for Reg Asset	0	0	-	2,513,469
11	9260	A&G-Employee pensions and benefits	FAS106 O&M for Reg Asset	0	0	(0)	820,840
12	9260	A&G-Employee pensions and benefits	Medical Benefits Load	0	0	0	8,481,247
13	9260	A&G-Employee pensions and benefits	Medical Benefits Variance	0	0	0	(1,886,076)
14	9260	A&G-Employee pensions and benefits	Empr ESOP Benefits Load	0	0	0	1,528,597
15	9260	A&G-Employee pensions and benefits	Empr ESOP Benefits Variance	0	0	0	232,679
16	9260	A&G-Employee pensions and benefits	RSP FACC Benefits Load	0	0	0	147,929
17	9260	A&G-Employee pensions and benefits	RSP FACC Benefits Variance	0	0	0	157,981
18	9260	A&G-Employee pensions and benefits	Basic Life Benefits Load	0	0	0	246,548
19	9260	A&G-Employee pensions and benefits	LTD Benefits Load	0	0	0	394,477
20	9260	A&G-Employee pensions and benefits	Variable Pay & Mgmt Incentive	5,956,023	5,557,378	8,532,660	9,757,548
21	9260	A&G-Employee pensions and benefits	Restricted Stock - Long Term Incentive Plan - Performance	2,943,556	2,764,658	3,274,749	3,835,827
22	9260	A&G-Employee pensions and benefits	RSU-Long Term Incentive Plan - Time Lapse	1,378,039	2,292,092	7,267,953	3,416,147
23	9260	A&G-Employee pensions and benefits	NQ Retirement Cost	8,223,834	9,134,080	7,589,378	10,714,998
24	9302	Miscellaneous general expenses	Directors Retirement Expenses	1,571,814	1,415,134	1,269,786	1,626,711
25			Total Above	35,637,658	28,887,943	52,718,015	77,458,529
26	ALLOCATION OF SSU EXPENSES BELOW BASED ON TOTAL AMOUNTS AT OAG 1-154:						
27		Total Subject to Allocation		108,233,389	105,177,465	117,829,318	123,853,950
28		Total Shared Services		3,439,800	6,404,976	6,437,455	6,178,363
29		Total Shared Services		12,635,115	10,076,981	11,055,220	9,336,462
30				16,074,915		17,492,675	15,514,825
31							
32		Total Allocated Shared Services		1,276,510	2,379,449	2,393,446	2,558,382
33		Total Allocated Shared Services		4,355,324	3,379,819	3,780,546	3,898,834
34		Shared Service Expense Total	Total Shared Services	5,631,834	5,759,268	6,173,991	6,457,216
35							
36		Division General Office (Excluding Regular Payroll):					
37	9230	A&G-Outside services employed	Legal	105,180	147,796	96,122	317,058
38	9260	A&G-Employee pensions and benefits	Variable Pay & Mgmt Incentive Plans	1,052,636	663,200	1,622,385	1,758,790
39	9260	A&G-Employee pensions and benefits	VPP & MIP - Capital Credit	(494,198)	(344,263)	(846,361)	(923,876)
40	9260	A&G-Employee pensions and benefits	Restricted Stock -Long Term Incentive Plan - Time Lapse	88,121	30,030	0	0
41	9260	A&G-Employee pensions and benefits	Restricted Stock - Management Incentive Plan	20,484	10,877	1,726	-
42	9260	A&G-Employee pensions and benefits	Restricted Stock - Long Term Incentive Plan - Performance	190,117	117,724	116,404	142,671
43	9260	A&G-Employee pensions and benefits	RSU-Long Term Incentive Plan - Time Lapse	75,928	115,403	165,250	168,806
44	9260	A&G-Employee pensions and benefits	RSU-Management Incentive Plan	7,210	17,037	47,634	41,506
45			Total Above	1,045,479	757,804	1,203,160	1,504,955
46		Total Division General Office		12,179,718	10,599,227	11,662,297	9,809,762
47		Allocated Total Division General Office		4,198,349	3,554,981	4,005,247	4,042,707

Kentucky Office of Attorney General
Adjust Payroll and Benefits
Atmos Electric Corporations
Forecasted Test Period November 30, 2014

Revised Exhibit BCO-2
Revised Schedule A-7

A	B	C	D	E	F
Line	Description	Expense	Capital	Total Expense & Capital	
1	Kentucky Direct - OAG Adjustment				
2	<i>PAYROLL</i>				
3	Atmos Payroll - Forecasted Test Period	\$5,339,350	\$6,138,968	\$11,478,318	OAG 117 and 120
4	OAG Actual 2012 Payroll	\$4,728,247	\$5,719,869	\$10,448,116	OAG 117 and 120
5	Increase from Actual 2012 to Nov. 2014 Forecasted	\$611,103	\$419,099	\$1,030,202	
6	Disallow 50% of Atmos Forecasted Increase	50%			
7	OAG Adjustment - Payroll	\$305,552			
8	OAG Payroll Increase Allowed for Base and Forecasted Test Period		6.46%		
9					
10	<i>BENEFITS</i>				
11	Atmos Benefits - Forecasted Test Period	\$3,161,528	\$3,634,972	\$6,796,500	OAG 117 and 120
12	OAG Actual 2012 Benefits	\$2,157,841	\$2,296,037	\$4,453,878	OAG 117 and 120
13	Increase from 2012 Actual to Nov. 2014 Forecasted	\$1,003,687	\$1,338,935	\$2,342,622	
14	Disallow 50% of Atmos Forecasted Increase	50%			
15	OAG Adjustment - Benefits	\$501,844			
16	OAG Benefit Increase Allowed for Base and Forecasted Test Period		23.26%		
17					
18	SSU & DGO - OAG Adjustment				
19	<i>PAYROLL</i>				
20	Atmos Payroll - Forecasted Test Period	\$4,815,551	\$1,986,191	\$6,801,742	OAG 117 and 120
21	OAG Actual 2012 Payroll	\$4,296,178	\$2,300,690	\$6,596,868	OAG 117 and 120
22	Increase from Actual 2012 to Nov. 2014 Forecasted	\$519,373	-\$314,499	\$204,874	
23	Disallow 50% of Atmos Forecasted Increase	50%			
24	OAG Adjustment - Payroll	\$259,687			
25	OAG Payroll Increase Allowed for Base and Forecasted Test Period		6.04%		
26					
27	<i>BENEFITS</i>				
28	Atmos Benefits - Forecasted Test Period	\$2,364,465	\$2,754,502	\$5,118,967	OAG 117 and 120
29	OAG Actual 2012 Benefits	\$2,158,046	\$1,493,042	\$3,651,088	OAG 117 and 120
30	Increase from 2012 Actual to Nov. 2014 Forecasted	\$206,419	\$1,261,460	\$1,467,879	
31	Disallow 50% of Atmos Forecasted Increase	50%			
32	OAG Adjustment - Benefits	\$103,210			
33	OAG Benefit Increase Allowed for Base and Forecasted Test Period		4.78%		
34					
35	OAG Total Adjustment - Payroll & Benefits	\$1,170,291			
36					
37	Recap of OAG Adjustment:				
38	Atmos Forecasted Test Period Payroll and Benefits	\$15,680,894			
39	OAG Actual 2012 Payroll and Benefits	\$13,340,312			
40	Increase from 2012 Actual to Nov. 2014 Forecasted	\$2,340,582			
41	Disallow 50% of Atmos Forecasted Increase	50%			
42	OAG Total Adjustment - Payroll & Benefits	\$1,170,291			
43	OAG Payroll and Benefit Increase Allowed for Base and Forecasted Test Period			8.77%	

**Kentucky Office of Attorney General
Remove 50% Incentive Compensation
Atmos Electric Corporations
Forecasted Test Period November 30, 2014**

**Exhibit BCO-2
Schedule A-8**

A	B	C	D	E	F	G	H
Line	Type	Division	Expensed	Capitalized	Total	Alloc. Factor	Source
1	LTIP	SSU and Cust. Support	\$341,555	\$313,712	\$655,267	5.27%	Note 1
2	LTIP	Ky/Mid-States	\$64,933	\$0	\$64,933		Note 1
3	VIPP and MIPP	Div. 2	\$577,206	\$249,607	\$826,813	5.55%	Note 2
4	VIPP and MIPP	Div. 12	\$961	\$426	\$1,387	5.72%	Note 2
5	VIPP and MIPP	Div. 91	\$386,666	\$427,388	\$814,054	50%	Note 2
6	Restricted Stock Plans	Div. 2	\$150,466	\$65,067	\$215,533	5.55%	Note 2
7	Restricted Stock Plans	Div. 12	\$16,587	\$7,344	\$23,931	6%	Note 2
8	Restricted Stock Plans	Div. 91	\$32,569	\$32,569	\$32,569	50%	Note 2
9	Total Incentives before disallowance		\$1,570,943	\$1,096,113	\$2,634,487		
10		Disallow 50%	0.5	0.5	0.5		
11	OAG Original Adjustment to Incentives		\$785,472	\$548,057	\$1,317,244		
12							
13	Original Incentives before disallowance		\$1,570,943	\$1,096,113			
14	Duplicate LTIP inadvertently removed		-\$406,488	-\$313,712			
15	Revised Incentives before disallowance		\$1,164,455	\$782,401			
16		Disallow 50%	0.5	0.5			
17	OAG Revised Adjustment to Incentives		\$582,228	\$391,201			
18							
19	Note 1 - OAG 2-61 Attachment 3						
20	Note 2 - OAG 2-58 Attachment 6						

CONFIDENTIAL

Kentucky Office of Attorney General

Impute CSS Cost Savings

Exhibit BCO-2

Atmos Electric Corporations

Schedule A-9

Forecasted Test Period November 30, 2014 **Redacted**

A	B	C	D	E
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1 **CONFIDENTIAL - the only amounts which Atmos specifically identifies as Confidential are**
2 **cost savings from OAG 197 shown below, but because this amount could possibly**
3 **be determined if the other amounts in this adjustment were disclosed, this entire**
4 **adjustment will be treated as Confidential.**

	<u>CSS Costs</u>	
	<u>Capital</u>	
	<u>Costs</u>	
9	Capital cost adjustment:	
10	Total costs before adjustment	
11	Revised costs with adjustment	
12	Adjustment	
13	Remove one-half of costs temporarily	
14	OAG One-Half of Costs/Adjustment	
15	Atmos Kentucky allocation factor	
16	OAG Adjustment for CSS capital costs	
17		
19	Depreciation Expense Adjustment:	
20	OAG Adjustment for CSS capital costs above	
21	Depreciation rate	
22	OAG adjustment for CSS depreciation expense	
23		
24	Atmos claimed cost savings at OAG 1-97:	
25		Specific Confidential:
26	Atmos original claimed savings on Capital Spend of \$	Confidential OAG 2-36
27	Divided by original estimated Capital Spend of \$47 m	Confidential OAG 2-36
28		
29	Atmos final Capital Spend of \$78.9 m	
30	Ratio of savings using Confid. OAG 2-36 above	Confidential OAG 2-36
31	OAG adjustment for updated calculated savings	Confidential OAG 2-36
32	Allocation factor	Confidential OAG 2-36
33	OAG adjustment for Atmos' claimed cost savings	Confidential OAG 2-36
34		
35	OAG - Total Adjustment for Expense Savings	
36	(Includes both Depreciation and Atmos claimed cost savings)	

Kentucky Office of Attorney General
Remove NOLC ADIT
Atmos Electric Corporations
Forecasted Test Period November 30, 2014

Exhibit BCO-2
Schedule A-10

A	B	C	D	E	F	G	H	I	J	K
Line				Staff 1-59	Staff 1-47	AG 2-78	KY		Staff 1-59	Staff 1-47
1	Div.	Acct.	Descrip.	NOLC	NOLC		Mid-States	KY Juris.	Allocated	Allocated
2				12/31/2012	12/31/2012		Alloc.	Alloc.	12/31/2012	12/31/2012
3	0.002	1900	Fed. NOL Credit Carryforward - Utility	355,963,785			11.10%	50%	19,755,990	-
4	.010.	1900	Fed. NOL Credit Carryforward - Utility		336,718,783		11.10%	50%	-	18,687,892
5	.010.	1900	Fed. NOL Credit Carryforward - Utility						-	-
6	0.012	1900		-	Div. not provided		10.78%	53.04%	-	
7	0.009	1900		-	Div. not provided		100%	100%	-	
8	0.091	1900	State NOL	3,806,488	3,806,488		100%	50%	1,903,244	1,903,244
9	0.091	1900	Fed. Tax on State NOL	(1,875,810)	(1,875,810)		100%	50%	(937,905)	(937,905)
10				<u>357,894,463</u>	<u>338,649,461</u>	<u>340,724,523</u>			<u>20,721,329</u>	<u>19,653,231</u>
11										
12									1,500,000	1,500,000
13									22,221,329	21,153,231
14										
15									45,893,236	
16									68,114,565	