

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

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

A Line No.	B Description	C OAG Rev. Req.
1	Rate Base	230,266,212
2	ROR	7.63%
3	Required Return	17,569,312
4	Adjusted Net Income	16,831,319
5	Return Deficiency	737,993
6	Conversion Factor	1.647570
7	Required Revenue Increase	1,215,895

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

Exhibit BCO-2
Schedule A - 2

A Line No.	B Description	C Atmos Revenue Requirement	D OAG	E Adj. Increase/(Decrease)	F Net Income Adj. Description	Adjustments
1	Rate Base	252,914,292	252,914,292	1	Remove duplicate CSS maintenance fees	\$ 51,262
2	OAG Adjustments		(22,648,080)	2	Remove 2.7% generic inflation factor adj.	\$ 496,907
3	Adjusted Rate Base	252,914,292	230,266,212	3	Adjust SSU and DGO allocated expenses	\$ 1,492,500
4	ROR (1)	8.53%	7.63%	4	Adjust payroll and benefits expense	\$ 2,568,790
5	Required Return	21,573,589	17,569,312	5	Remove 50% of Officer & Man. Incentives	\$ 785,472
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	-	3,371,240			
11	Adjusted Operating Net Income	13,460,079	16,831,319			
12						
13	Return Deficiency (Surplus)	8,113,510	737,993		Total Operating Adjustments	\$ 5,517,578
14	Revenue Conversion Factor	1.647570	1.647570		Effective Tax Rate	38.90%
15					Federal & State Income Tax	\$ (2,146,338)
16					Note 2 - Int. Synchronization	
17	Required Revenue Increase/(Decrease)	13,367,579	1,215,895		Adjustment to Net Income	\$ 3,371,240
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%			
22	Net Revenues	99.337800%	99.337800%			
23	SIT Rate at 6%	-5.960268%	-5.960268%		Note 2 - Lead Lag True-Up	
24	Income before Fed. Tax	93.377532%	93.377532%		Adjustments to Rate Base	\$ (22,648,080)
25	Fed. Rate at 35%	-32.682100%	-32.682100%			
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-4
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	Most Recent Five Calendar Years						Base Year	Forecast	Atmos
	2008	2009	2010	2011	2012	7/31/2013	Test Year	Actual 2012	
							11/30/2014	to Forecasted	
								Test Year	
1									
2									
3									
4									
5									
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	2,943,556	2,764,658	3,274,749	3,835,827
22	9260	A&G-Employee pensions and benefits	Incentive Plan - Performance				
23	9260	A&G-Employee pensions and benefits	RSU-Long Term Incentive Plan -	1,378,039	2,292,092	7,267,953	3,416,147
24	9260	A&G-Employee pensions and benefits	Time Lapse				
25	9260	A&G-Employee pensions and benefits	NQ Retirement Cost	8,223,834	9,134,080	7,589,378	10,714,998
26	9302	Miscellaneous general expenses	Directors Retirement Expenses	1,571,814	1,415,134	1,269,786	1,626,711
27		Total Above		35,637,658	28,887,943	52,718,015	77,458,529
28	ALLOCATION OF SSU EXPENSES BELOW BASED ON TOTAL AMOUNTS AT OAG 1-154:						
29	Total Subject to Allocation			108,233,389	105,177,465	117,829,318	123,853,950
30	Total Shared Services			3,439,800	6,404,976	6,437,455	6,178,363
31	Total Shared Services			12,635,115	10,076,981	11,055,220	9,336,462
32				16,074,915		17,492,675	15,514,825
33	Total Allocated Shared Services			1,276,510	2,379,449	2,393,446	2,558,382
34	Total Allocated Shared Services			4,355,324	3,379,819	3,780,546	3,898,834
35	Shared Service Expense Total		Total Shared Services	5,631,834	5,759,268	6,173,991	6,457,216
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	1,052,636	663,200	1,622,385	1,758,790
39	9260	A&G-Employee pensions and benefits	Plans				
40	9260	A&G-Employee pensions and benefits	VPP & MIP - Capital Credit	(494,198)	(344,263)	(846,361)	(923,876)
41	9260	A&G-Employee pensions and benefits	Restricted Stock -Long Term	88,121	30,030	0	0
42	9260	A&G-Employee pensions and benefits	Incentive Plan - Time Lapse				
43	9260	A&G-Employee pensions and benefits	Restricted Stock - Management	20,484	10,877	1,726	-
44	9260	A&G-Employee pensions and benefits	Incentive Plan				
45	9260	A&G-Employee pensions and benefits	Restricted Stock - Long Term	190,117	117,724	116,404	142,671
46	9260	A&G-Employee pensions and benefits	Incentive Plan - Performance				
47	9260	A&G-Employee pensions and benefits	RSU-Long Term Incentive Plan -	75,928	115,403	165,250	168,806
48	9260	A&G-Employee pensions and benefits	Time Lapse				
49	9260	A&G-Employee pensions and benefits	RSU-Management Incentive Plan	7,210	17,037	47,634	41,506
50		Total Above		1,045,479	757,804	1,203,160	1,504,955
51	Total Division General Office			12,179,718	10,599,227	11,662,297	9,809,762
52	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**

**Exhibit BCO-2
 Schedule A-7**

A	B	C	D	E	
		Forecast Test Period End Nov. 2014			
Line	Description	Expense	Total Expense & Capital		
1	Kentucky Direct - OAG Adjustment				
2	OAG Payroll	\$6,519,624		\$10,866,041	
3	Atmos Payroll	\$8,500,877		\$11,478,317	
4	OAG Adjustment - Payroll	(\$1,981,253)			
5					
6	OAG Benefits	\$2,783,674		\$5,567,348	
7	Atmos Benefits	\$3,161,528		\$6,796,500	
8	OAG Adjustment - Benefits	(\$377,854)			
9	OAG Total Adjustment - Kentucky Direct	(\$2,359,107)			
10					
11	SSU & DGO - OAG Adjustment				
12	OAG Payroll	\$4,688,394		\$6,794,774	
13	Atmos Payroll	\$4,815,551		\$6,801,742	
14	OAG Adjustment - Payroll	(\$127,157)			
15					
16	OAG Benefits	\$2,281,930		\$4,563,860	
17	Atmos Benefits	\$2,364,456		\$5,118,967	
18	OAG Adjustment - Benefits	(\$82,526)			
19	OAG Total Adjustment - SSU & OAG	(\$209,683)			
20					
21	OAG Total Adjustment - Kentucky & SSU/DGO	(\$2,568,790)			
22					
23		Total Proposed Expense Increase for Base and Forecasted Test Period			
24					
25	Type of Payroll	Atmos \$	Atmos %	OAG \$	OAG %
26	Kentucky Direct - Payroll	\$3,772,630	80%	\$1,791,377	38%
27	Kentucky Direct - Benefits	\$1,003,687	47%	\$625,833	29%
28	SSU & DGO - Payroll	\$519,373	12%	\$392,216	
29	SSU & DGO - Benefits	\$206,419	10%	\$123,884	6%
30	Total Expense Increase Proposed	\$5,502,109	41%	\$2,933,310	22%

**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 Adjustment to Incentives		\$785,472	\$548,057	\$1,317,244		
12							
13	Note 1 - OAG 2-61 Attachment 3						
14	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	