

JOHN N. HUGHES  
ATTORNEY AT LAW  
PROFESSIONAL SERVICE CORPORATION  
124 WEST TODD STREET  
FRANKFORT, KENTUCKY 40601

Telephone: (502) 227-7270

jnhughes@johnnhughespsc.com

February 13, 2018

Gwen Pinson  
Executive Director  
Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40601

Re: Atmos Energy Corporation:  
Case No. 2017-00349

Dear Ms. Pinson:

Atmos Energy Corporation, pursuant to the request of the Attorney General and the Commission Staff at the conference held on Friday February 9, submits the Excel files associated with the reduction in the federal tax rate. This same information was filed into the record of Case No. 2018-00039 at the parties' request.

To assist in the understanding of the calculations, the following information is being provided.

**Determination of Tax Expense Reduction on Base Rates:**

The first two steps utilize a Revenue Requirement Excel Model to calculate the revenue requirement change associated with the expense reduction for the change in FIT rate from 35% to 21%.

Step 1 –

- Refer to the Excel file named “KY Rev Req Model – 2015 Settlement”.
- This file built upon a model provided in response to Staff 2-21 Att 1 in Case No. 2015-00343.
- Ratemaking adjustments to that foundation file, to simulate black-box settlement, included reflection of an ROE of 9.8% (on tab J-1F) and an O&M adjustment of (\$132,364) (on tab C.2).
- Because the Company is in a net loss position, all of the tax expense included in cost of service is deferred and therefore must be equal to the total change in deferred taxes (ADIT). On tab B.5 F, Excel cell I73 must be computed to balance amounts computed in Excel cells I70 and I75. This determines the amount of change in the NOLC necessary for the total change in ADIT from the Base Period to the Forward Looking Test Period to equal the amount of income tax expense included in the cost of service. The amount in Excel cell I70 of Schedule B.5.F is equal to the amount on Schedule C.1 Excel cell J23 and is the tax expense included in cost of service calculated at the statutory rate. The \$9,564,894 I

Excel cell I73 was calculated using the "goal seek" function in Microsoft Excel. The goal seek function was set to make the sum of Excel cell I70 and I73 equal to zero by changing the Excel cell in I73 (the \$9,564,894 change in NOLC).

- This Step 1 creates a revenue requirement model matching the increase of \$500,000 set forth in the Settlement in Case No. 2015-00343 (See tab A.1) at an FIT rate of 35%. Values on tab 1, Excel column G are copied as values to Excel column L for purposes of comparison to the model created in Step 2 below.

Step 2 –

- Refer to the Excel file named “Exhibit JTC-1 KY Rev Req Model – w Tax Law Proforma”.
- This file built upon the model created in Step 1 above, reflecting the Settlement revenue requirement at the FIT rate of 35%.
- To modify the filing to reflect the reduced FIT rate of 21%, the following entries must be made:
  - o Allocation tab, Excel cell E23, change keyed formula from 0.35 to 0.21.
  - o Tab C.1, Excel cell H23, change keyed formula from 0.35 to 0.21.
  - o Tab E, Excel cell E21 and G21, change keyed formula from 0.35 to 0.21.
  - o Tab H.1, Excel cell C29, change keyed formula from 0.35 to 0.21.
- On tab B.5 F, the Required Change in NOLC is computed as described above to ensure balance between the Tax Expense on Return and the Total Required Change in Accumulated Deferred Income Taxes. In this instance, the “goal seek” solution in Excel cell \$14,497,717.
- This Step 2 creates a revenue requirement model matching the increase of \$500,000 set forth in the Settlement in Case No. 2015-00343 (See tab A.1) at an FIT rate of 21%. Comparing the rate reduction produced by this model to the Settlement model from Step 1 shows a total rate reduction necessary of \$4,584,138.

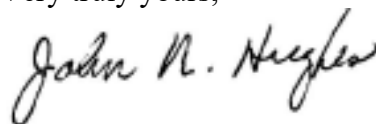
Step 3 –

- Refer to the Excel file named “Rate Strike for FIT Expense”.
- The reduction of \$4,584,138 is spread uniformly to each tariff rate component, producing a 5.6% reduction in base revenue (excluding pass through gas costs) for all customer classes.

I certify that the electronic filing is a complete and accurate copy of the original documents to be filed in this matter, which will be filed within two days of this submission and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.

If you have any questions about this matter, please contact me.

Very truly yours,



John N. Hughes

And

Mark R. Hutchinson  
Wilson, Hutchinson and Littlepage  
611 Frederica St.  
Owensboro, KY 42301  
270 926 5011  
randy@whplawfirm.com

Attorneys for Atmos Energy  
Corporation