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February 28, 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, submits its rebuttal testimony.

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

John N. Hughes

And

Mark R. Hutchinson
Wilson, Hutchinson and Littlepage
611 Frederica St.
Owensboro, KY 42301
270 926 5011
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Attorneys for Atmos Energy Corporation

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY CORPORATION FOR AN ADJUSTMENT OF RATES AND TARIFF MODIFICATIONS	)	**Case No. 2017-00349**

<u>REBUTTAL TESTIMONY OF MARK. A. MARTIN</u>

I. <u>INTRODUCTION</u>

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Mark A. Martin. I am Vice President - Rates and Regulatory Affairs for the Kentucky/Mid-States Division of Atmos Energy Corporation ("Atmos Energy" or the "Company"). My business address is 3275 Highland Pointe Drive, Owensboro, Kentucky, 42303.

Q. PLEASE BRIEFLY DESCRIBE YOUR CURRENT RESPONSIBILITIES, AND PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I am responsible for Rates and Regulatory Affairs matters in Kentucky. I graduated from Eastern Illinois University in 1995 with a degree in Accounting. I have been with United Cities Gas Company and subsequently Atmos Energy Corporation since September 1995. I have served in a variety of positions of increasing responsibility in both Gas Supply and Rates prior to assuming my current responsibility in 2007.

Q. HAVE YOUR SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. HAVE YOU REVIEWED THE TESTIMONY OF THE INTERVENING PARTIES?

A. Yes.

II. PURPOSE AND SUMMARY OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address the issues raised and the conclusions and recommendations made in the testimony of Mr. Kollen. My rebuttal testimony will focus on three aspects: (1) the Company's proposed Annual Review Mechanism; (2) the Company's existing Pipe Replacement Program (PRP); and (3) the Company's proposed increase to its R&D rider.

III. ANNUAL REVIEW MECHANISM

Q. HAVE YOU REVEIWED THE TESTIMONY OF MR. KOLLEN?

A. Yes.

Q. PLEASE DESCRIBE MR. KOLLEN'S RECOMMENDATION RELATED TO THE COMPANY'S PROPOSED ANNUAL MECHANISM (ARM).

A. Mr. Kollen recommends that the Commission reject the Company's proposed ARM.

Q. WHAT IS THE RATIONALE FOR MR. KOLLEN'S OPPOSITION TO THE COMPANY'S PROPOSED ARM?

A. Mr. Kollen lists several reasons for his opposition, ultimately concluding that the ARM would not result in customer benefits.

Q. DO YOU AGREE WITH MR. KOLLEN'S CONCLUSIONS LEADING TO HIS OPPOSITION TO THE COMPANY'S PROPOSED ARM IN THIS CASE?

A. No. As discussed in more detail below, Mr. Kollen's conclusions are not based upon the evidence in the record or the benefits resulting from existing similar mechanisms in other jurisdictions. While Atmos Energy is confident that the ARM as filed would not result in any of Mr. Kollen's concerns materializing, which I discuss in more detail below, the Company is willing to make modifications to its proposal to ensure that his concerns are addressed. Mr. Waller discusses those proposed changes in his rebuttal testimony.

Q. PLEASE EXPLAIN.

A. First, Mr. Kollen states that the ARM is not needed to allow the Company to achieve annual rate actions because the Company has the ability and the discretion to file general rate cases on an annual or more frequent basis.[1] The traditional rate case is a burdensome and expensive process when compared to the proposed ARM. Other states have used annual mechanisms for over twenty-five (25) years and have presumably found them to be a preferable alternative to traditional rate cases for a variety of policy reasons as they continue to be used. In Mississippi, for example, all of the five investor-owned electric and gas utilities operate under formulary rate plans (i.e., annual mechanisms). According to the latest (2015) Mississippi PSC Annual Report to address annual mechanisms, which is available on their website, the use of formulary rate plans has not only reduced the frequency of traditional rate cases, but has also enabled the Mississippi Public Utilities Staff and the Commission

[1] Kollen Direct at 68.

to have detailed knowledge of the operations of the companies that they regulate. The Mississippi PSC has praised the formulary rate plan process of achieving the policy goals of transparency, increased regulatory oversight, rate stability, and reduced expense and reduction of unnecessary workload of the Commission and Staff.[2]

Second, Mr. Kollen states that an ARM is not needed to reduce regulatory lag since the Company has the ability to use a forecasted test year.[3] Again, the Company is attempting to streamline the ratemaking process. Due to Kentucky's financial position, the Commission has already experienced severe budget cuts and future cuts may be forthcoming. The Company's proposed ARM is worth considering to assist the Commission and its Staff by reducing the enormous amounts of time, energy and resources that the traditional rate case process requires.

Third, Mr. Kollen asserts that the Company's proposed ARM would harm customers as the ARM would cause more frequent and larger increases without review and deliberation by the Commission thus basically giving the Company free reign to increase its rates to unjust and unreasonable levels.[4] In fact, the jurisdictions in which annual mechanisms are regularly used have had the opposite experience. The Company's proposed ARM has the necessary safeguards in place and includes a true-up component so that the Company recovers no more than and its customers pay no more than the actual cost of service plus the reasonable rate of return approved by

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[2] *See, e.g.,* Order, MPSC Docket 2009-UN-388, March 4, 2010 (approving a revised formula rate plan for Entergy Mississippi, Inc. and referencing the substantial benefits of formula rate plans of in the State of Mississippi), how well they are working to the benefit of customers, and the policy reasons supporting the use of formula rate plans in Mississippi.
[3] Kollen Direct at 68.
[4] Kollen Direct at pp. 68 - 69.

the Commission. A natural result of routine annual filings is that rate changes (which could be increases or decreases), are much more gradual and reflect the utility's actual cost of service much more accurately on an annual basis than filing a rate case every 2-3 years or longer under the traditional methodology.

Fourth, Mr. Kollen questions whether there would be any savings to customers and that any potential savings would need to be weighed against more frequent and larger rate increases. As I explained, annual mechanisms lead to more stable, gradual changes in rates (whether increases or decreases) and reduce or prevent the rate shock that can often result from traditional rate cases. I also note that the Company's first ARM filing in Georgia resulted in a rate decrease, so it is incorrect to assume that annual filings consistently result in an increase to customer bills.

Fifth, Mr. Kollen states that the Company's proposed ARM removes behavioral incentives and modifies the incentive to spend more in order to increase earnings.[5] In fact, Mr. Kollen goes so far as to claim that an annual mechanism "…allows recovery of <u>ALL</u> expenses…." and "…. essentially guarantees that utility's authorized return at whatever level of capital expenditures or expense. (emphasis added).[6] Kollen Direct Testimony at p. 70. Even a cursory review of how annual mechanisms work, including specifically the one proposed in this case, discredits Mr. Kollen's claims. All expenses incurred by the Company are subject to scrutiny by the Commission and interested third parties such as the Attorney General under annual mechanisms to assure they are prudent.

[5] Kollen Direct at 70.
[6] Kollen Direct at 70.

The Company has made significant investments that predominantly relate to safety and reliability. This investment creates a more modernized system and a modernized system benefits all customers. During this time of intensive capital investment, it is even more important that the Commission and Staff have frequent opportunities to review the Company's investment plan and ensure that it does in fact invest at the level of investment approved by the Commission. The ARM mechanism encourages even more attention to and regulatory oversight of the Company's expenses and investments through the annual review and the required reconciliation should the Company's expenditures differ from the levels anticipated by its filings.

Finally, Mr. Kollen's section related to the Company's PRP program attempts to cast doubt on the ARM by claiming that the PRP is poor ratemaking policy.[7] Mr. Smith's rebuttal testimony will discuss the Company's PRP program from inception as well as reasons why actual costs incurred have been higher than was originally forecasted in Case No. 2009-00354. Mr. Kollen compares the Company's estimates in Case No. 2009-00354 to updated projections to conclude that the Company is overspending.[8] Contrary to Mr. Kollen's allegations of overspending, outside of the Shelbyville and Lake City Lines, all projects included in the Company's PRP from 2011 through today met the intent of the Company's application and were addressed and approved in Case No. 2009-00354. Case No. 2017-00308 was the Company's eighth PRP filing and the first in which the AG intervened. Also, the Company is unaware of the AG recently intervening in any other LDC's PRP filings. As will be discussed later in my rebuttal testimony, the PRP has worked well.

[7] Kollen Direct at 70.
[8] Kollen Direct at 71-73.

Q. IS IT FAIR TO CHARACTERIZE THE PRP AS A "PILOT PROGRAM FOR THE ARM?"

A. No. The two programs are wholly unrelated. As Mr. Waller and I have already testified in this docket, the purpose of the ARM is to create a more efficient and lower cost process to review rates on an annual basis so that the rates paid by the customers more accurately reflect current costs. The purpose of the PRP is to support a broad and proactive program with capital expenditures beyond the ordinary course of business to address safety related concerns.

IV. PIPELINE REPLACEMENT PROGRAM

Q. HAS MR. KOLLEN PROPOSED A RECOMMENDATION RELATED TO THE COMPANY'S PRP RIDER IN THIS CASE?

A. Yes.

Q. PLEASE DESCRIBE MR. KOLLEN'S RECOMMENDATION RELATED TO THE COMPANY'S PRP.

A. Mr. Kollen proposes that the Commission terminate the Company's PRP or at least cap the annual spending level.[9]

Q. DOES THE COMPANY AGREE WITH MR. KOLLEN'S PROPOSED RECOMMENDATION RELATED TO THE COMPANY'S PRP RIDER IN THIS CASE?

A. No.

[9] Kollen Direct at 73-74.

Q. WHAT ARE THE PRIMARY REASONS FOR MR. KOLLEN TO PROPOSE TERMINATION OF THE COMPANY'S PRP RIDER?

A. Mr. Kollen states that termination of the Company's PRP should have no safety and reliability impact on the Company's distribution system.[10] Mr. Kollen also claims that the PRP is not needed as the Company's customer base is barely growing.[11]

Q. DOES THE COMPANY AGREE WITH MR. KOLLEN'S REASONING?

A. Absolutely not.

Q. PLEASE EXPLAIN.

A. Mr. Kollen theorizes that since the Company's customer base is barely growing, the Company should recover its prudent investment and costs solely within the traditional rate case format. Regardless of customer growth, all natural gas utilities upgrade and modernize their infrastructure through enhanced risk-based integrity management programs.

The Company's forward-looking PRP was the result of a unanimous settlement with the AG's office and approved by the Commission in Case No. 2009-00354. After expressing no objection to the Company's first seven PRP filings, the AG, through its expert witness, is recommending for the first time to terminate or cap the Company's PRP Rider.

The Company views terminating the PRP as short-sighted, which is a view shared by federal pipeline safety regulators. At the February 2018 meeting of the National Association of Regulatory Utility Commissioners ("NARUC"), Howard Elliott, administrator of the U.S. Pipeline and Hazardous Materials Safety

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[10] Kollen Direct at 74.
[11] Kollen Direct at 74.

Administration ("PHMSA"), stated that state utility regulators should authorize more financial support for gas companies' voluntary safety activities, noting that just complying with standards is not enough to advance safety. He further noted that it is unfortunate and counter to safety goals when gas utilities that choose to go above and beyond minimum regulations or choose to adopt voluntary safety programs run into cost recovery obstacles when the operators turn to their regulators for approval.[12] According to the American Gas Association, forty-one (41) states, including the District of Columbia, have specific rate mechanisms that foster accelerated pipe replacement.

Atmos Energy is committed to advancing the safety of its system for the benefit of the customers it serves today and in the future.

Q. WOULD THE COMPANY BE AMENABLE TO AN ANNUAL CAP AS SUGGESTED BY MR. KOLLEN?

A. While Mr. Kollen suggested the concept, he did not offer any suggested cap amount or any evidence to support his claim. The Company understands the Commission's concerns over potential PRP spending levels. The Company was asked in Case No. 2017-00308 to forecast its future PRP spend and it has done so. The best estimate possible was to assume a twelve percent (12%) growth factor on the projected 2018 spend. This estimated growth factor makes the future PRP spending projections quite large. While the Company has remained committed to the original fifteen year term that the Commission approved in Case No. 2009-00354, there may be merits to

[12] Smith, Sarah, "Gas utilities need more rate support for safety programs, federal regulator says," SNL, Feb. 13, 2018, https://www.snl.com/web/client?auth=inherit#news/article?id=43519734&KeyProductLinkType=19

extending the potential life of the PRP Rider, to having a set amount or cap per year and/or both. The Company is always willing to consider alternatives. Also, the Company closely monitors the federal regulations imposed by PHMSA, who may implement future rule changes that would require expansion of the Company's existing PRP. The Commission approved a $45 million capital expenditure program in Case No. 2017-00308.

V. <u>R&D Rider</u>

Q. HAS MR. KOLLEN PROPOSED AN ADJUSTMENT RELATED TO THE COMPANY'S R&D RIDER IN THIS CASE?

A. Yes.

Q. PLEASE DESCRIBE MR. KOLLEN'S PROPOSED RECOMMENDATION RELATED TO THE COMPANY'S R&D RIDER IN THIS CASE.

A. Mr. Kollen proposes that either terminate the entire R&D Rider or that the Commission should reject the Company's proposed increase in the R&D Rider unit charge.[13]

Q. DOES THE COMPANY AGREE WITH MR. KOLLEN'S PROPOSED RECOMMENDATION RELATED TO THE COMPANY'S R&D RIDER IN THIS CASE?

A. No. Please note that in Case No. 2016-00070, Mr. Kollen testified that "[t]he AG does not seek to eliminate the R&D Rider or reduce the charge in this proceeding" and Mr. Kollen has not provided any additional information that would justify a complete change in opinion on this subject.

[13] Kollen Direct at 75.

Q. WHAT WAS THE PRIMARY REASON FOR MR. KOLLEN TO OPPOSE THE INCREASE IN THE R&D RIDER UNIT CHARGE?

A. Mr. Kollen testified that the Company identified no quantifiable benefits resulting from the R&D Rider unit charge.

Q. DO YOU BELIEVE THAT BENEFITS EXIST?

A. Yes. While the Company does not specifically track the benefits/savings, Atmos Energy's R&D initiatives through GTI have been successful, which can only benefit our customers.

Q. PLEASE EXPLAIN.

A. The R&D initiatives supported by the Company develop technologies that result in benefits that accrue almost entirely to gas consumers. These benefits include increased safety, enhanced deliverability, contained costs for distribution O&M, enhanced environmental quality, and greater system integrity through development of distribution operations technologies; as well as, lower energy use and energy bills and enhanced venting safety through the development of improved appliances and equipment that are lower cost and/or operate more efficiently. Maintaining R&D programs is absolutely critical for the continued safe transportation and efficient and affordable use of natural gas as a current and future environmentally benign, domestically produced energy source for the Commonwealth of Kentucky and for the United States.

Q. PLEASE DISCUSS THE COMPANY'S PARTICIPATION WITH THE GAS TECHNOLOGY INSTITUTE (GTI).

A. As one of the country's largest natural-gas-only distributors, Atmos Energy provides financial support for gas operations and end-use efficiency R&D which are directed through two industry-led consortia: Operations Technology Development ("OTD") and Utilization Technology Development ("UTD").

Q. PLEASE DISCUSS OTD AND UTD IN MORE DETAIL.

A. UTD and OTD are 501(c)(6) (i.e., not-for-profit) industry-led consortia established in 2004 and 2003, respectively, to provide the nation's natural gas local distribution companies ("LDCs") a way to voluntarily fund Gas Consumer Benefits R&D. Twenty-four gas LDCs are members of OTD; and eighteen gas LDCs are members of UTD. Significant funding for UTD and OTD comes from gas LDCs that have received regulatory approval for cost recovery of R&D funding. Additionally, according to GTI, in 2016, each $1.00 in new UTD funding was leveraged with $4.71 of direct funding from government and industry partners. GTI secured $12.25 million from federal and state government partners and $3.91 million in funding from manufacturing partners and other gas industry resources (outside of UTD). Manufacturing partners provided significant, additional in-kind co-funding. UTD funds R&D that is anticipated to benefit end users of natural gas by increasing the efficiency, reducing emissions, and lowering the cost of gas-using equipment, and ensuring the safe use of natural gas in customers' homes and businesses. OTD funds R&D that benefit gas consumers, LDCs, and the general public by developing technologies and products that increase the safety, improve the reliability, and reduce the costs of gas transmission and distribution systems. According to GTI, OTD co-funding for 2016 was $646,000 from the Department of Transportation Pipeline and Hazardous Materials Safety Administration, along with an additional $283,000 from other OTD partners. The Company's Kentucky customers currently contribute to both the UTD and the OTD programs. The Company provided highlighted results for UTD and OTD in response to Staff 1-53 in Case No. 2015-00343 Atmos Energy's Responses to Staff's First Request for Information, Item 59, 12/7/2015.

Q. IS THE COMPANY AWARE OF ANY SPECIFIC PROGRAMS FUNDED BY GTI FOR EITHER UTD OR OTD WHICH WILL OR HAVE CREATED BENEFITS FOR NATURAL GAS CUSTOMERS?

A. Yes. The Company is aware of a safety study in UTD that is looking at preventing freeze up of attic-based condensing furnaces where the vent line for the condensed water vapor would freeze up in the unheated attic space. UTD is also developing reliable methane detectors for home use. OTD has developed and commercialized both the optical and portable methane detectors, for use in more quickly and accurately locating gas leaks, downhole fire extinguishing techniques for reducing incidents during gas line repairs and guidelines and best practices for preventing crossbores of natural gas and sewer lines. The aforementioned initiatives are just a small sample of the benefits derived from GTI programming.

Q. WHAT OTHER STATES ARE ALREADY PARTICIPATING IN UTD AND OTD FUNDING PROGRAMS?

A. There are 30 states currently authorizing research funding for R&D initiatives for one or more of the LDCs in their state. The states are Alabama, Arizona, California, Colorado, Delaware, Florida, Idaho, Illinois, Kentucky, Louisiana, Maryland, Mississippi, Minnesota, Nevada, New York, New Hampshire, New Jersey, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, and Wyoming.

Q. ARE YOU AWARE OF ANY OTHER KENTUCKY LDCS THAT HAVE R&D RIDERS?

A. Yes. The Company is aware that Columbia Gas (Columbia) and Delta Natural Gas have R&D Riders.

Q. ARE ANY OF THE OTHER KENTUCKY LDCS R&D RIDERS AT A LEVEL SIMILAR TO THE COMPANY'S REQUEST?

A. Yes. According to Sheet No. 51c of Columbia's tariff, their R&D Rider collects $300,000 annually. The Company is seeking to increase its R&D Rider unit charge to collect approximately $278,000 annually. As outlined in the Company's notice, the average monthly impact to a residential bill is 7 cents. As stated in my direct testimony, while one could argue that the $278,000 which could have been billed and collected annually since 2004 is somewhat stale, the Company would prefer to initially increase the R&D unit charge to $0.0174 per Mcf from the present $0.0035 per Mcf and to seek any additional increases in future proceedings. This level is consistent with the original Federal Energy Regulatory Commission ("FERC") R&D surcharge which was discontinued in 2004, to be replaced by voluntary R&D funding from gas distribution companies.

V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF	)	
RATE APPLICATION OF	)	Case No. 2017-00349
ATMOS ENERGY CORPORATION	)	

CERTIFICATE AND AFFIDAVIT

The Affiant, Mark A. Martin, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared rebuttal testimony of this affiant in Case No. 2017-00349, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared rebuttal testimony.

Mark A. Martin

Mark A. Martin

STATE OF Kentucky

COUNTY OF Daviess

SUBSCRIBED AND SWORN to before me by Mark A. Martin on this the 22nd day of February, 2018.

Joanne M. Henderson

Notary Public

My Commission Expires: 3-22-18

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY	)	
	)	
CORPORATION FOR AN ADJUSTMENT	)	**Case No. 2017-00349**
	)	
OF RATES AND TARIFF MODIFICATIONS	)	

<u>REBUTTAL TESTIMONY OF GREGORY K. WALLER</u>

I. <u>INTRODUCTION</u>

Q. PLEASE STATE YOUR NAME, JOB TITLE AND BUSINESS ADDRESS.

A. My name is Gregory K. Waller. I am Manager, Rates and Regulatory Affairs with Atmos Energy Corporation ("Atmos Energy" or "Company"). My business address is 5420 LBJ Freeway, Ste. 1600, Dallas, Texas 75240.

Q. ARE YOU THE SAME GREGORY WALLER THAT FILED PREFILED TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to rebut the adjustments for non-PRP capital expenditures, operations and maintenance ("O&M") expenditures, ad valorem taxes, and rate case expenses suggested by Attorney General's Office of Rate Intervention ("OAG") witness Mr. Lane Kollen. I will also discuss Mr. Kollen's recommendations in regards to the Company's proposed Annual Review Mechanism ("ARM").

Q. HAVE YOU SUMMARIZED THE COMPANY'S REBUTTAL POSITION AND CALCULATED THE REVENUE REQUIREMENT THAT RESULTS?

A. Yes. The table below, which is adopted from the table that appears in Mr. Kollen's testimony on page 5, summarizes the Company's position on each of the AG's adjustments. I calculated the resulting revenue requirement using the revenue requirement model attached to the response to Staff's Second Request, Item 37 and referenced below as the starting point. By simultaneously incorporating all of the adjustments, the proper revenue requirement can be calculated.

Atmos Energy Corporation - Kentucky Division
Summary of Company Rebuttal Positions
KPSC Case No. 2017-00349
Test Year Ended March 31, 2019

	Company Position	Rebuttal Witness	
Atmos Requested Increase			
Atmos Request Based on Original Filing			$ 10,416,024
Atmos Modification of Request - Response to Staff 2-37	Accept	Waller	(53,216)
Atmos Modified Request Amount - Response to Staff 2-37			$ 10,362,808
AG Rate Base Recommendations			
Reduce Forecast 12% Escalation on Capital Additions for Kentucky Non-PRP Oct 2018-Mar 2019	Reject	Waller	
Reflect Changes in Net Salvage - Effects on A/D Net of ADIT	Reject	Watson	
Remove Account 190 ADIT Not Associated With Cost of Service	Modify	Christian	
Include Temporary Differences Associated With 190 ADIT Included in Cost of Service	Reject	Christian	
Remove NOL ADIT in Acct 190	Reject	Story	
Reflect Cash Working Capital Based on Corrected Lead Lag Study	Reject	Christian	
Remove Prepayments	Accept	Christian	
Remove Rate Case Regulatory Asset	Reject	Waller	
AG Operating Income Recommendations			
Remove Amortization Expense for Rate Case Regulatory Asset	Reject	Waller	
Reduce Kentucky Division O&M Expense	Reject	Waller	
Reduce Mid-States Division O&M Expense Allocated to Kentucky Division	Reject	Waller	
Remove Directors Stock Expense	Reject	Waller	
Reduce Retirement Plan Expenses	Reject	Waller	
Reduce Income Tax Expense to Reflect Reduction in Federal Income Tax Rate	Accept	Story	
Reduce Income Tax Expense to Amortize Excess ADIT	Modify	Story	
Reduce Escalation in Ad Valorem Taxes	Reject	Waller	
Amortize Def Interest Expense from Annualizing March 2019 Refinancing Interest Savings	Reject	Christian	
Adjust Depreciation Expense to Remove Forecast 12% Escalation on Non-PRP Capital Additions	Reject	Waller	
Reduce Depreciation Expense to Reflect Changes in Net Salvage	Reject	Watson	
Include AEC Commitment and Banking Fees in Operating Income	Reject	Christian	
AG Rate of Return Recommendations			
Remove Commitment Fee and Administrative Expense from Cost of Short Term Debt	Reject	Christian	
Reduce Long Term Debt Rate by Reflecting Redemption and Reissue of High Interest Debt	Modify	Christian	
Reflect Return on Equity of 8.80%	Reject	Vander Weide	
Composite Allocation Factor - All Aspects of Revenue Requirement	Reject	Gillham	
Total Impact of Rebuttal Positions Included in Exhibit GKW-R-1			$ (8,598,726)
Revenue Requirement in Exhibit GKW-R-1			1,764,082

Q. DO YOU HAVE ANY EXHIBITS ATTACHED TO YOUR TESTIMONY?

A. Yes. Exhibit GKW-R-1 is the Company's revenue requirement model updated to account for the rebuttal positions of the Company's witnesses as summarized above.

Q. WAS THE EXHIBIT PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes.

II. NON-PRP INVESTMENT

Q. DO YOU AGREE WITH MR. KOLLEN'S NON-PRP CAPITAL SPENDING ADJUSTMENT AS SUMMARIZED ON PAGES 6-8 OF HIS TESTIMONY?

A. No.

Q. WHAT IS THE RATIONALE FOR MR. KOLLEN'S ADJUSTMENT?

A. Mr. Kollen makes an adjustment for non-PRP capital expenditures by removing the twelve percent increase projected by the Company for the months of October 2018 through March 2019. Mr. Kollen's argues that the twelve percent increase outpaces projected inflation and that the Company would not be obligated to spend the capital if it were included in revenue requirement.[1]

Q. WHY DO YOU DISAGREE WITH THIS ADJUSTMENT?

A. Mr. Kollen's adjustment is not consistent with the Company's planned capital investment. The twelve percent increase is solely projected for the months of the forward looking test year that are in FY 2019, is based on growth in capital spending beyond the Company's FY 2018 budget, and is not related to nor a function of expected inflation rates. The Company's FY 2018 non-PRP capital investment

[1] Kollen Direct at 7-8.

budget can be found in the Plant Data model workpapers to the response to Staff's First Request, Item 71.[2] These projected increases in direct investment reflect actual and expected capex growth consistent with the operational needs of the Company's Kentucky distribution property. The Company's response to Staff's Second Request, Item 16, Attachment 1 also indicates that year-over-year capital spending increases have occurred in the past several years for Kentucky as a whole and that the Company has experienced minimal variances to budget.[3] The consistency of budget to actual investment confirms the Company's position that investment is need based rather than inflation based. Mr. Kollen's suggestion that the Company would not spend the additional capital once it was included in revenue requirement ignores the fact that the Company's system of internal controls and accountability ensures that the opposite is true. Failure to base rates on an increased level of capital spending when that is, in fact, the Company's investment plan, puts pressure on the Company to increase its frequency of general rate cases absent a comprehensive annual rate mechanism such as the one proposed by the Company in this case.

Q. DOES THE COMPANY'S PROPOSED ARM ENSURE THAT CUSTOMERS ONLY PAY FOR PRUDENTLY INCURRED INVESTMENT?

A. Yes. The reconciliation filing required by the ARM as it is proposed ensures that the Company's rates only reflect prudently incurred investment. The reconciliation process ensures (despite Mr. Kollen's assertion to the contrary) that all interested parties have ample opportunity to conduct discovery to assess the prudency of all of

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[2] Staff_1-71_ Model Workpapers in Excel - Plant Data - KY Plant Data-2017 case.xlsx, "Capital Spending" tab, cells D14 - O14.

[3] See Company response to Staff Second Request, Item 16, Attachment 1.

the Company's investments. Variances to plan are then incorporated into the annual reconciliation revenue requirement that trues up the Company's rates with interest. Furthermore, in response to Staff's Fourth Request Item 8 and repeated below in section VI of my testimony, I propose to modify the ARM to align the forward looking test year with the Company's fiscal year. Doing so eliminates the need for the capex growth factor that Mr. Kollen has criticized.

III. <u>RATE CASE EXPENSE AND REGULATORY ASSET</u>

Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDATION TO REMOVE THE RATE CASE EXPENSE AND REGULATORY ASSET AS HE SUGGESTS ON PAGE 38 OF HIS TESTIMONY?

A. No.

Q. WHY DO YOU DISAGREE?

A. Any utility is allowed to file an application for a rate adjustment at its discretion. Kentucky law allows a utility to recover its prudent costs of service and establish fair, just and reasonable rates. Mr. Kollen's adjustment is based on his professed belief that the Company's filing is unwarranted simply because Mr. Kollen disagrees with the issues he addresses in his testimony.

Q. WERE THERE OTHER FACTORS INVOVLED IN THE COMPANY'S DECISION TO FILE THIS CASE?

A. Yes. In addition to the cost of service items, the Company has also filed for approval of its ARM, as well as an update to the R&D Rider. Currently, the Company has no way of recovering non-PRP investments, resetting billing determinants and approving other items, such as the R&D Rider, except through a general rate case.

These factors, in addition to the cost of service items, led the Company to exercise its right under applicable Kentucky law to request, collect and receive fair, just and reasonable rates for the services rendered.

Q. MR. KOLLEN HAS EXPRESSED A BELIEF THAT THIS CASE SHOULD HAVE NEVER BEEN FILED BECAUSE THE FORECAST COSTS ARE UNREASONABLE. IS THERE AN ALTERNATIVE APPROACH THAT COULD MITIGATE HIS CONCERN?

A. Yes. The proposed ARM would mitigate concerns about the use of forecasted costs. The proposal includes a true up of costs and investment which ensures (despite Mr. Kollen's assertion to the contrary) that all interested parties have ample opportunity to conduct discovery to assess the prudency of all of the Company's costs and ensure that the Company's rates are based upon only prudently incurred costs and investments.

Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING MR. KOLLEN'S CRITICISM OF THIS CASE?

A. Yes. Mr. Kollen is fond of labeling ratemaking methodologies with which he disagrees as "errors" even in instances when the items have been approved by this Commission and other regulatory bodies that have jurisdiction over the Company. The fact that Mr. Kollen disagrees with something does not make it an error nor does it make it "excessive" nor "unreasonable and unrealistic". In fact, Mr. Kollen, in this case, has repeated himself, almost verbatim, by making many of the same arguments in this case that he made in Case Number 2015-00343 and in recent cases before this Commission involving other utilities. Re-litigating arguments that have already been fully explored multiple times is precisely what implementation of the ARM is intended to avoid. The Commission should make this point by denying Mr. Kollen's recycled arguments.

IV. O&M EXPENSES

Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDATION REGARDING KENTUCKY DIVISION O&M EXPENSE?

A. No. Mr. Kollen's recommends a reduction to revenue requirement as he feels increases in certain categories are unjustified. The Company's O&M expenses are based on its most recent budget prepared in the manner as stated in my direct testimony which is consistent with the methodology that the Company has traditionally used in forward looking filings in Kentucky and consistent with the operating expenses approved by the Commission in Case Number 2013-00148. Mr. Kollen ignores several budget categories which had expenses reduced between the comparison of Calendar Year 2016 actuals and the test period. He also ignores the fact that total allocated O&M is forecasted to increase a rather modest 2.23% from the base period to the test period prior to ratemaking adjustments (a period covering 15 months from base period year-end to test period year-end).

Q. DOES MR. KOLLEN BASE HIS O&M ADJUSTMENT ON A COMPARISION OF BASE YEAR TO TEST YEAR EXPENSES?

A. No. Mr. Kollen's recommended adjustment is based on a comparison of test year expenses to Calendar Year 2016 expenses provided by the Company in a data request.[4] Mr. Kollen ignores the base period expenses in his comparison to test year

[4] AG 1-22

expenses. The period from the end of Calendar Year 2016 to the end of the test period in March 2019 covers 27 months, whereas the base period in this case (as required by Kentucky Administrative Regulations in the filing requirements) is a full year ahead of Mr. Kollen's point of reference.

Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDATION TO REDUCE MID-STATES DIVISION (091) O&M EXPENSE ALLOCATED TO KENTUCKY?

A. No. Mr. Kollen's recommendation to reduce the Kentucky/Mid-States Division (091) O&M Expense is flawed for the same reasons as his Kentucky Division (009) adjustment as I describe above. Again, Mr. Kollen ignores the base period entirely and bases his recommendation by comparing test period expenses to calendar year 2016.[5] Mr. Kollen's approach is simply to adjust expenses to reset certain categories in expenses to 2016 levels including telecom, travel and entertainment and outside services for purposes of the test period, which is the 12 months ending March 2019. The Company's O&M expenses are based on its most recent budget prepared in the manner as stated in my direct testimony which is consistent with the methodology that the Company has traditionally used in forward looking filings in Kentucky and consistent with the operating expenses approved by the Commission in Case Number 2013-00148.

[5] Cite Kollen testimony, see also AG 1-23

Q. DO YOU HAVE FURTHER COMMENTS ON THE MERITS OF THE COMPANY'S METHODOLOGY?

A. Yes. The items above represent good examples of why the Company's budget and the process by which it is developed produces the best indicator of expenses for the test period as I describe in detail in my direct testimony. It is much more accurate than Mr. Kollen's reliance on past experience as an indicator of future results because it takes into account known changes in the business and better predicts their impact on costs. Furthermore, the Company's ARM, with its reconciliation feature, ensures that customers' rates will ultimately reflect only actual prudently incurred costs regardless of forecast methodology.

Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDATION TO REMOVE DIRECTOR'S COMPENSATION?

A. No. Mr. Kollen himself confirms " . . . that it is appropriate for the Company to pay its directors for their service. Mr. Kollen believes that the Company should recover the just and reasonable component of director compensation expense for ratemaking purposes." (Company DR 1-17). The fact that Directors are given the option to convert their compensation to Company stock does not make it incentive compensation. It is inappropriate for Mr. Kollen to re-classify compensation that is prudently incurred simply because individuals chose to re-invest those earnings in Company stock. Furthermore, Mr. Kollen's adjustment overstates the amount of Directors' compensation allocated to Kentucky and included in cost of service. As illustrated in his responses to Company Data Requests 1-20 and 1-21, Mr. Kollen removed an entire category of expenses rather than limiting his adjustment to directors' compensation.

Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDATION TO REMOVE CERTAIN RETIREMENT EXPENSES?

A. No. Mr. Kollen has not assessed the market competitiveness of the Company's plans nor compared the value of the Company's plans to those of the two companies that were the subject of recent decisions (Company Data Requests 1-23 and 1-24). Furthermore, the costs in question are prudent benefit costs that are part of the Company's total compensation package provided to employees.

Q. PLEASE DESCRIBE ATMOS ENERGY'S COMPENSATION PROGRAM.

A. Atmos Energy's compensation program is comprised of several pay and benefits components that make up the Company's Total Rewards strategy. The Total Rewards program was developed in 1998 and has been subject to appropriate changes or revisions to allow the Company to remain competitive within the marketplace. Taken as a whole, the Total Rewards package is targeted at the 50th percentile (median) of pay and benefit at peer companies that are similar in size and/or industry to Atmos Energy. Stated differently, the Company aims to reward its employees at the midpoint between the highest and lowest levels of peer companies.

Q. WHAT IS THE OBJECTIVE OF THE COMPANY'S TOTAL REWARDS PROGRAM?

A. The Company's goal is to ensure that Atmos Energy is able to compete in the marketplace to attract and retain the caliber of employees necessary to operate a safe and reliable gas utility system. Toward that end, the Company aims to maintain a rewards program that is externally competitive with employers with whom the Company competes for talent, internally equitable among the Company's employees, and allows the Company to attract, retain, and motivate a quality workforce that will operate the utility in a safe, reliable and efficient manner.

Q. WHY IS IT IMPORTANT TO OFFER PACKAGES THAT ARE COMPETITIVE WITHIN THE INDUSTRY?

A. In order to attract and retain the types of employees and skill sets necessary to operate the utility, the Company must offer compensation that is competitive in the market in which the Company competes for personnel. Operating a utility requires a skilled labor force from operational, administrative and management perspectives. A company is only as good as its employees, and a skilled and educated workforce is absolutely critical to the safe and reliable operation of the natural gas distribution system. Offering a competitive compensation package is a necessary component of competing for quality personnel.

V. AD VALOREM TAXES

Q. DO YOU AGREE WITH MR. KOLLEN'S RECOMMENDATION TO REDUCE AD VALOREM TAX EXPENSE?

A. No. The Company accrues ad valorem tax expense monthly at a rate commensurate with its expectations of the tax it will owe once the tax year is finalized and applicable negotiations are complete. The Company accrues expense given the best information it has at the time of the accrual. Because Kentucky historically issues assessed values later in the year than other states, it is sometimes necessary to make adjustments to the accrual balance, and subsequently the tax expense, to reflect any difference between our original tax projection and the updated tax estimate as it did in September 2017. Per the required base period update, the Company accrued $4,884,792 of direct ad valorem expense for the 12 months ending December 31, 2017 (the base period in this case). The forecasted amount of $5,076,000 is a rather modest 3.9% increase over that actual result. The net book value of the Company's property, plant and equipment is expected to grow 13% over the same time period. Furthermore, the Company's ARM, with its reconciliation feature, ensures that customers' rates will ultimately reflect only actually incurred costs regardless of forecast methodology.

VI. <u>ARM</u>

Q. DO MR. KOLLEN'S CRITICISMS OF THE COMPANY'S ARM HAVE MERIT?

A. No. Company witness Mr. Mark Martin rebuts Mr. Kollen's criticisms of the Company's ARM proposal. In addition, the Company provided further evidence in defense of the ARM in its response the Staff's Fourth Request, Item 8.

Q. HAVE YOU CONTEMPLATED ANY MODIFICATIONS TO THE ARM PROPOSAL TO ALLEVIATE MR. KOLLEN'S CONCERNS?

A. Yes. While I continue to believe that Mr. Kollen's concerns regarding the ARM lack merit, the Company is willing to make the following modifications to the implementation of its proposal in a good-faith effort to compromise:

1. Align the forward looking test year with the Company's fiscal year. The Company is willing change the relevant dates in its proposal to file its annual forward looking filing each June 1 for implementation on October 1 of each year. The resulting forward looking test year would be October 1 - September 30. Doing so would allow the Company to file its fiscal capex budget without the

need for the capex inflation factor that Mr. Kollen has criticized. If this proposed modification is adopted, the Company would plan to file its PRP filing as scheduled on August 1, 2018 (for PRP investment from October 1, 2018 - September 30, 2019). The first ARM filing would be June 1, 2019 and be for all investment (including PRP investment) for Fiscal 2020 (October 1, 2019 - September 30, 2020).

2. Develop a proposed procedural schedule for each filing that includes multiple rounds of discovery and the opportunity for intervenor testimony. The Company suggests modifying its ARM proposal to require a procedural schedule for each filing that includes a minimum of two rounds of discovery and opportunities for intervenor testimony and Company rebuttal testimony. Because the ARM is designed to provide the information and support relevant and critical to calculating the cost of service, it is the Company's experience that such discovery and testimony is more focused and streamlined than that which is typically produced in general rate cases.

VII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF	)	
RATE APPLICATION OF	)	Case No. 2017-00349
ATMOS ENERGY CORPORATION	)	

CERTIFICATE AND AFFIDAVIT

The Affiant, Gregory K. Waller, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared rebuttal testimony of this affiant in Case No. 2017-00349, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared rebuttal testimony.

GWaller

Gregory K. Waller

STATE OF TEXAS

COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Gregory K. Waller on this the 23rd day of February, 2018.

Notary Public

My Commission Expires: 9/01/2020

GISELLE R HEROY
Notary Public, State of Texas
Comm. Expires 09-01-2020
Notary ID 13080484-2

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Allocation Factors

Line No.	Description	Forecast Period KY/ Md-Sts Division	Forecast Period Kentucky Jurisdiction	Forecast Period Kentucky Composite	Base Period KY/ Md-Sts Division	Base Period Kentucky Jurisdiction	Base Period Kentucky Composite
	Rate Base, Dep. Exp., & Taxes Other						
1	**Shared Services**						
2	General Office (Div 002)	10.35%	50.25%	5.20%	10.35%	50.25%	5.20%
3	Customer Support (Div 012)	10.93%	51.88%	5.67%	10.93%	51.88%	5.67%
4	**Kentucky/Mid-States**						
5	Mid-States General Office (Div 091)	100%	50.25%	50.25%	100%	50.25%	50.25%
6							
7							
8	**Greenville Avenue Data Center**			1.55%			1.55%
9	**Charles K. Vaughan Center**			2.33%			2.33%
10	**AEAM**			6.44%			6.44%
11	**ALGN**			0.00%			
12							
13	**Kentucky Composite Tax**			25.74%			
14							
15	**Rate of Return on Equity**			10.30%			
16							
17	**STDRATE**			1.99%			
18							
19	**LTDRATE**			5.09%			

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Schedule	Pages	Description
A	1	Overall Financial Summary

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Overall Financial Summary
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__X____Base Period___X____Forecasted Period | FR 16(8)(a)
Type of Filing:___X____Original________Updated ________Revised | Schedule A
Workpaper Reference No(s).____________________ | Witness: Waller

Line No.	Description	Supporting Schedule Reference	Base Jurisdictional Revenue Requirement	Forecasted Jurisdictional Revenue Requirement
	(a)	(b)	(c)	(d)
1	Rate Base	B-1	$ 358,900,188	$ 427,151,221
2	Adjusted Operating Income	C-1	$ 32,171,310	$ 30,590,337
3	Earned Rate of Return (line 2 divided by line 1)	J-1.1	8.96%	7.16%
4	Required Rate of Return	J-1	7.82%	7.72%
5	Required Operating Income (line 1 times line 4)	C-1	$ 28,065,995	$ 32,976,074
6	Operating Income Deficiency (line 5 minus line 2)	C-1	$ (4,105,315)	$ 2,385,737
7	Gross Revenue Conversion Factor	H	1.35611	1.35611
8	Revenue Deficiency (line 6 times line 7)		$ (5,567,246)	$ 3,235,315
9	Amortization of Excess ADIT	WP B.5 F1		$ (1,471,233)
10	**Revenue Increase Requested**			**1,764,082**
11	Adjusted Operating Revenues	C-1		$ 170,729,276
12	Revenue Requirements (line 9 plus line 10)			$ 172,493,358

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

FR 16(8)(b) SCHEDULE B

Rate Base

Schedule	Pages	Description
B-1	2	Rate Base Summary
B-2	14	Plant in Service by Account and Sub Account
B-3	14	Accumulated Depreciation & Amortization
B-3.1	5	Depreciation Expense
B-4	2	Allowance for Working Capital
B-4.1	2	Working Capital Components - 13 Month Averages
B-4.2	2	Cash Working Capital - 1/8 O&M Expenses
B-5	2	Deferred Credits & Accumulated Deferred Income Taxes
B-6	2	Customer Advances For Construction

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Jurisdictional Rate Base Summary
as of December 31, 2017

Data:__X___Base Period______Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)1
Schedule B-1
Witness: Waller

Line No.	Rate Base Component	Supporting Schedule Reference	Base Period Ending Balance	Base Period 13 Month Average
1	Plant in Service	B-2 B	$ 609,603,942	$ 580,489,691
2	Construction Work in Progress	B-2 B	27,493,203	22,166,217
3	Accumulated Depreciation and Amortization	B-3 B	(191,190,491)	(185,290,734)
4	Property Plant and Equipment, Net (Sum line 1 Thru 3)		$ 445,906,654	$ 417,365,173
5	Cash Working Capital Allowance	B-4.2 B	$ 3,370,236	$ 3,370,236
6	Other Working Capital Allowances (Inventory & Prepaids)	B-4.1 B	12,546,883	8,822,367
7	Customer Advances For Construction	B-6 B	(1,437,537)	(1,455,773)
8	Regulatory Assets / Liabilities*	WP B.5 F1; F.6	(35,309,597)	(35,309,597)
9	Deferred Inc. Taxes and Investment Tax Credits	B-5 B	(33,892,218)	(33,892,218)
10	Rate Base (Sum line 4 Thru 8)		$ 391,184,421	$ 358,900,188

*13 Mo Avg includes Period End to reflect TCJA Adjustments

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Jurisdictional Rate Base Summary
as of March 31, 2019

Data:______Base Period__X___Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)1
Schedule B-1
Witness: Waller

Line No.	Rate Base Component	Supporting Schedule Reference	Forecasted Test Period Ending Balance	Forecasted Test Period 13 Month Average
1	Plant in Service	B-2 F	$ 679,131,593	$ 657,447,129
2	Construction Work in Progress	B-2 F	27,493,203	27,493,203
3	Accumulated Depreciation and Amortization	B-3 F	(199,948,564)	(191,846,139)
4	Property Plant and Equipment, Net (Sum Line 1 Thru 3)		$ 506,676,232	$ 493,094,193
5	Cash Working Capital Allowance	B-4.2 F	$ 3,270,504	$ 3,270,504
6	Other Working Capital Allowances (Inventory & Prepaids)	B-4.1 F	(3,947,172)	8,469,206
7	Customer Advances For Construction	B-6 F	(1,437,537)	(1,437,537)
8	Regulatory Assets / Liabilities	WP B.5 F1; F.6	(35,152,655)	(34,338,567)
9	Deferred Inc. Taxes and Investment Tax Credits	B-5 F	(36,190,616) *	(41,906,579)
10	Rate Base (Sum Line 4 Thru 8)		$ 433,218,757	$ 427,151,221

Test Period ending ADIT balance does not include forecasted change in NOLC. Forecasted change in NOLC is calculated on B.5F on a 13 month average basis only and included in rate base and revenue requirement.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Plant in Service by Accounts and SubAccounts
as of March 31, 2019

Data:______Base Period__X___Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)2
Schedule B-2 F
Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	3/31/2019 Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	13 Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
		Kentucky Direct (Division 009)										
1		Intangible Plant										
2	30100	Organization	$ 8,330	$ -	$ 8,329.72	100%	100%	$ 8,330	$ 8,330	100%	100%	$ 8,329.72
3	30200	Franchises & Consents	$ 119,853	-	119,853	100%	100%	119,853	$ 119,853	100%	100%	119,853
4												
5		Total Intangible Plant	$ 128,182	$ -	$ 128,182			$ 128,182	$ 128,182			$ 128,182
6												
7		Natural Gas Production Plant										
8	32540	Rights of Ways	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
9	33202	Tributary Lines	$ -	-	-	100%	100%	-	$ -	100%	100%	-
10	33400	Field Meas. & Reg. Sta. Equip	$ -	-	-	100%	100%	-	$ -	100%	100%	-
11												
12		Total Natural Gas Production Plant	$ -	$ -	$ -			$ -	$ -			$ -
13												
14		Storage Plant										
15	35010	Land	$ 261,127	$ -	$ 261,126.69	100%	100%	$ 261,126.69	$ 261,127	100%	100%	$ 261,126.69
16	35020	Rights of Way	$ 4,682	-	4,682	100%	100%	4,682	$ 4,682	100%	100%	4,682
17	35100	Structures and Improvements	$ 17,916	-	17,916	100%	100%	17,916	$ 17,916	100%	100%	17,916
18	35102	Compression Station Equipment	$ 153,261	-	153,261	100%	100%	153,261	$ 153,261	100%	100%	153,261
19	35103	Meas. & Reg. Sta. Structues	$ 23,138	-	23,138	100%	100%	23,138	$ 23,138	100%	100%	23,138
20	35104	Other Structures	$ 137,443	-	137,443	100%	100%	137,443	$ 137,443	100%	100%	137,443
21	35200	Wells \ Rights of Way	$ 7,430,334	-	7,430,334	100%	100%	7,430,334	$ 7,430,334	100%	100%	7,430,334
22	35201	Well Construction	$ 1,699,999	-	1,699,999	100%	100%	1,699,999	$ 1,699,999	100%	100%	1,699,999
23	35202	Well Equipment	$ 415,819	-	415,819	100%	100%	415,819	$ 415,819	100%	100%	415,819
24	35203	Cushion Gas	$ 1,694,833	-	1,694,833	100%	100%	1,694,833	$ 1,694,833	100%	100%	1,694,833
25	35210	Leaseholds	$ 178,530	-	178,530	100%	100%	178,530	$ 178,530	100%	100%	178,530
26	35211	Storage Rights	$ 54,614	-	54,614	100%	100%	54,614	$ 54,614	100%	100%	54,614
27	35301	Field Lines	$ 178,497	-	178,497	100%	100%	178,497	$ 178,497	100%	100%	178,497
28	35302	Tributary Lines	$ 209,458	-	209,458	100%	100%	209,458	$ 209,458	100%	100%	209,458
29	35400	Compressor Station Equipment	$ 923,446	-	923,446	100%	100%	923,446	$ 923,446	100%	100%	923,446
30	35500	Meas & Reg. Equipment	$ 481,914	-	481,914	100%	100%	481,914	$ 439,117	100%	100%	439,117
31	35600	Purification Equipment	$ 414,663	-	414,663	100%	100%	414,663	$ 414,663	100%	100%	414,663
32												
33		Total Storage Plant	$ 14,279,674	$ -	$ 14,279,674			$ 14,279,674	$ 14,236,877			$ 14,236,877

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Plant in Service by Accounts and SubAccounts
as of March 31, 2019

Data:______Base Period__X___Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)2
Schedule B-2 F
Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	**3/31/2019** Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month** Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
34												
35		Transmission Plant										
36	36510	Land	$ 26,970	$ -	$ 26,970.37	100%	100%	$ 26,970	$ 26,970	100%	100%	$ 26,970.37
37	36520	Rights of Way	$ 867,772	-	867,772	100%	100%	867,772	$ 867,772	100%	100%	867,772
38	36602	Structures & Improvements	$ 49,002	-	49,002	100%	100%	49,002	$ 49,002	100%	100%	49,002
39	36603	Other Structues	$ 60,826	-	60,826	100%	100%	60,826	$ 60,826	100%	100%	60,826
40	36700	Mains Cathodic Protection	$ 158,925	-	158,925	100%	100%	158,925	$ 158,925	100%	100%	158,925
41	36701	Mains - Steel	$ 27,643,442	-	27,643,442	100%	100%	27,643,442	$ 27,643,442	100%	100%	27,643,442
42	36900	Meas. & Reg. Equipment	$ 731,467	-	731,467	100%	100%	731,467	$ 731,467	100%	100%	731,467
43	36901	Meas. & Reg. Equipment	$ 2,269,556	-	2,269,556	100%	100%	2,269,556	$ 2,269,556	100%	100%	2,269,556
44												
45		Total Transmission Plant	$ 31,807,960	$ -	$ 31,807,960			$ 31,807,960	$ 31,807,960			$ 31,807,960
46												
47		Distribution Plant										
48	37400	Land & Land Rights	$ 531,167	$ -	$ 531,166.79	100%	100%	$ 531,167	$ 531,167	100%	100%	$ 531,166.79
49	37401	Land	$ 37,326	-	37,326	100%	100%	37,326	$ 37,326	100%	100%	37,326
50	37402	Land Rights	$ 3,457,724	-	3,457,724	100%	100%	3,457,724	$ 3,231,772	100%	100%	3,231,772
51	37403	Land Other	$ 2,784	-	2,784	100%	100%	2,784	$ 2,784	100%	100%	2,784
52	37500	Structures & Improvements	$ 336,168	-	336,168	100%	100%	336,168	$ 336,168	100%	100%	336,168
53	37501	Structures & Improvements T.B.	$ 99,818	-	99,818	100%	100%	99,818	$ 99,818	100%	100%	99,818
54	37502	Land Rights	$ 46,264	-	46,264	100%	100%	46,264	$ 46,264	100%	100%	46,264
55	37503	Improvements	$ 4,005	-	4,005	100%	100%	4,005	$ 4,005	100%	100%	4,005
56	37600	Mains Cathodic Protection	$ 20,655,336	-	20,655,336	100%	100%	20,655,336	$ 20,712,559	100%	100%	20,712,559
57	37601	Mains - Steel	$ 140,873,358	-	140,873,358	100%	100%	140,873,358	$ 140,488,694	100%	100%	140,488,694
58	37602	Mains - Plastic	$ 132,616,482	-	132,616,482	100%	100%	132,616,482	$ 125,040,068	100%	100%	125,040,068
59	37800	Meas & Reg. Sta. Equip - General	$ 14,728,716	-	14,728,716	100%	100%	14,728,716	$ 13,616,673	100%	100%	13,616,673
60	37900	Meas & Reg. Sta. Equip - City Gate	$ 5,300,150	-	5,300,150	100%	100%	5,300,150	$ 5,018,152	100%	100%	5,018,152
61	37905	Meas & Reg. Sta. Equipment T.b.	$ 3,114,225	-	3,114,225	100%	100%	3,114,225	$ 2,811,184	100%	100%	2,811,184
62	38000	Services	$ 146,513,249	-	146,513,249	100%	100%	146,513,249	$ 139,868,620	100%	100%	139,868,620
63	38100	Meters	$ 44,941,090	-	44,941,090	100%	100%	44,941,090	$ 41,724,895	100%	100%	41,724,895
64	38200	Meter Installaitons	$ 57,452,859	-	57,452,859	100%	100%	57,452,859	$ 56,980,787	100%	100%	56,980,787
65	38300	House Regulators	$ 12,010,720	-	12,010,720	100%	100%	12,010,720	$ 11,717,794	100%	100%	11,717,794
66	38400	House Reg. Installations	$ 263,603	-	263,603	100%	100%	263,603	$ 249,552	100%	100%	249,552
67	38500	Ind. Meas. & Reg. Sta. Equipment	$ 5,259,208	-	5,259,208	100%	100%	5,259,208	$ 5,237,633	100%	100%	5,237,633
68												
69		Total Distribution Plant	$ 588,244,251	$ -	$ 588,244,251			$ 588,244,251	$ 567,755,915			$ 567,755,915

Atmos Energy Corporation, Kentucky/Mid-States Division
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Plant in Service by Accounts and SubAccounts
as of March 31, 2019

Data:______Base Period__X___Forecasted Period — FR 16(8)(b)2
Type of Filing:___X____Original________Updated ________Revised — Schedule B-2 F
Workpaper Reference No(s). — Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	3/31/2019 Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	13 Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
70												
71		General Plant										
72	38900	Land & Land Rights	$ 1,211,697	$ -	$ 1,211,697.30	100%	100%	$ 1,211,697	$ 1,211,697	100%	100%	$1,211,697.30
73	39000	Structures & Improvements	$ 7,149,909	-	7,149,909	100%	100%	7,149,909	$ 7,148,202	100%	100%	7,148,202
74	39002	Structures-Brick	$ 173,115	-	173,115	100%	100%	173,115	$ 173,115	100%	100%	173,115
75	39003	Improvements	$ 709,199	-	709,199	100%	100%	709,199	$ 709,199	100%	100%	709,199
76	39004	Air Conditioning Equipment	$ 12,955	-	12,955	100%	100%	12,955	$ 12,955	100%	100%	12,955
77	39009	Improvement to leased Premises	$ 1,246,194	-	1,246,194	100%	100%	1,246,194	$ 1,246,194	100%	100%	1,246,194
78	39100	Office Furniture & Equipment	$ 1,794,619	-	1,794,619	100%	100%	1,794,619	$ 1,794,619	100%	100%	1,794,619
79	39103	Office Machines	$ -	-	-	100%	100%	-	$ -	100%	100%	-
80	39200	Transportation Equipment	$ 220,987	-	220,987	100%	100%	220,987	$ 220,987	100%	100%	220,987
81	39202	Trailers	$ -	-	-	100%	100%	-	$ -	100%	100%	-
82	39400	Tools, Shop & Garage Equipment	$ 6,025,514	-	6,025,514	100%	100%	6,025,514	$ 5,455,993	100%	100%	5,455,993
83	39603	Ditchers	$ 39,610	-	39,610	100%	100%	39,610	$ 39,610	100%	100%	39,610
84	39604	Backhoes	$ 62,747	-	62,747	100%	100%	62,747	$ 62,747	100%	100%	62,747
85	39605	Welders	$ 19,427	-	19,427	100%	100%	19,427	$ 19,427	100%	100%	19,427
86	39700	Communication Equipment	$ 358,965	-	358,965	100%	100%	358,965	$ 358,965	100%	100%	358,965
87	39701	Communication Equip.	$ -	-	-	100%	100%	-	$ -	100%	100%	-
88	39702	Communication Equip.	$ -	-	-	100%	100%	-	$ -	100%	100%	-
89	39705	Communication Equip. - Telemetering	$ -	-	-	100%	100%	-	$ -	100%	100%	-
90	39800	Miscellaneous Equipment	$ 3,772,427	-	3,772,427	100%	100%	3,772,427	$ 3,791,155	100%	100%	3,791,155
91	39901	Servers Hardware	$ 14,390	-	14,390	100%	100%	14,390	$ -	100%	100%	-
92	39902	Servers Software	$ -	-	-	100%	100%	-	$ -	100%	100%	-
93	39903	Other Tangible Property - Network - H/W	$ 134,599	-	134,599	100%	100%	134,599	$ 134,599	100%	100%	134,599
94	39906	Other Tang. Property - PC Hardware	$ 1,893,352	-	1,893,352	100%	100%	1,893,352	$ 1,770,509	100%	100%	1,770,509
95	39907	Other Tang. Property - PC Software	$ -	-	-	100%	100%	-	$ -	100%	100%	-
96	39908	Other Tang. Property - Mainframe S/W	$ 123,515	-	123,515	100%	100%	123,515	$ 123,515	100%	100%	123,515
97												
98		Total General Plant	$ 24,963,221	$ -	$ 24,963,221			$ 24,963,221	$ 24,273,489			$ 24,273,489
99												
100		Total Plant (Div 9)	$ 659,423,289	$ -	$ 659,423,289			$ 659,423,289	$ 638,202,423			$ 638,202,423
101												
102		CWIP With out AFUDC	$ 26,845,505	$ -	$ 26,845,505	100%	100%	$ 26,845,505	$ 26,845,505	100%	100%	$ 26,845,505

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as of March 31, 2019

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Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

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Line No.	Acct. No.	Account / SubAccount Titles	3/31/2019 Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	13 Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
103												
104		**Kentucky-Mid-States General Office (Division 091)**										
105												
106		Intangible Plant										
107	30100	Organization	$ 185,309	$ -	$ 185,309	100%	50.25%	$ 93,120	$ 185,309	100%	50.25%	$ 93,120
108	30300	Misc Intangible Plant	$ 1,109,552	-	1,109,552	100%	50.25%	557,565	$ 1,109,552	100%	50.25%	557,565
109												
110		Total Intangible Plant	$ 1,294,861	$ -	$ 1,294,861			$ 650,685	$ 1,294,861			$ 650,685
111												
112		Distribution Plant										
113	37400	Land & Land Rights	$ -	$ -	$ -	100%	50.25%	$ -	$ -	100%	50.25%	$ -
114	35010	Land	-	-	-	100%	50.25%	-	-	100%	50.25%	-
115	37402	Land Rights	-	-	-	100%	50.25%	-	-	100%	50.25%	-
116	37403	Land Other	-	-	-	100%	50.25%	-	-	100%	50.25%	-
117	36602	Structures & Improvements	-	-	-	100%	50.25%	-	-	100%	50.25%	-
118	37402	Land Rights	-	-	-	100%	50.25%	-	-	100%	50.25%	-
119	37501	Structures & Improvements T.B.	-	-	-	100%	50.25%	-	-	100%	50.25%	-
120	37503	Improvements	-	-	-	100%	50.25%	-	-	100%	50.25%	-
121	36700	Mains Cathodic Protection	-	-	-	100%	50.25%	-	-	100%	50.25%	-
122	36701	Mains - Steel	-	-	-	100%	50.25%	-	-	100%	50.25%	-
123	37602	Mains - Plastic	-	-	-	100%	50.25%	-	-	100%	50.25%	-
124	37800	Meas & Reg. Sta. Equip - General	-	-	-	100%	50.25%	-	-	100%	50.25%	-
125	37900	Meas & Reg. Sta. Equip - City Gate	-	-	-	100%	50.25%	-	-	100%	50.25%	-
126	37905	Meas & Reg. Sta. Equipment T.b.	-	-	-	100%	50.25%	-	-	100%	50.25%	-
127	38000	Services	-	-	-	100%	50.25%	-	-	100%	50.25%	-
128	38100	Meters	-	-	-	100%	50.25%	-	-	100%	50.25%	-
129	38200	Meter Installaitons	-	-	-	100%	50.25%	-	-	100%	50.25%	-
130	38300	House Regulators	-	-	-	100%	50.25%	-	-	100%	50.25%	-
131	38400	House Reg. Installations	-	-	-	100%	50.25%	-	-	100%	50.25%	-
132	38500	Ind. Meas. & Reg. Sta. Equipment	-	-	-	100%	50.25%	-	-	100%	50.25%	-
133	38600	Other Prop. On Cust. Prem	-	-	-	100%	50.25%	-	-	100%	50.25%	-
134												
135		Total Distribution Plant	$ -	$ -	$ -			$ -	$ -			$ -

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Workpaper Reference No(s).

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Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	3/31/2019 Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	13 Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
136												
137		General Plant **										
138	39001	Structures Frame	$ 179,339	$ -	$ 179,339	100%	50.25%	$ 90,120	$ 179,339	100%	50.25%	$ 90,120
139	39004	Air Conditioning Equipment	$ 15,384	-	15,384	100%	50.25%	7,731	$ 15,384	100%	50.25%	7,731
140	39009	Improvement to leased Premises	$ 38,834	-	38,834	100%	50.25%	19,515	$ 38,834	100%	50.25%	19,515
141	39100	Office Furniture & Equipment	$ 41,397	-	41,397	100%	50.25%	20,803	$ 41,397	100%	50.25%	20,803
142	39101	Office Furniture And	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
143	39103	Office Machines	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
144	39200	Transportation Equipment	$ 27,285	-	27,285	100%	50.25%	13,711	$ 27,285	100%	50.25%	13,711
145	39300	Stores Equipment	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
146	39400	Tools, Shop & Garage Equipment	$ 186,174	-	186,174	100%	50.25%	93,555	$ 181,814	100%	50.25%	91,364
147	39600	Power Operated Equipment	$ 20,516	-	20,516	100%	50.25%	10,309	$ 20,516	100%	50.25%	10,309
148	39700	Communication Equipment	$ 66,533	-	66,533	100%	50.25%	33,434	$ 54,267	100%	50.25%	27,270
149	39701	Communication Equip.	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
150	39702	Communication Equip.	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
151	39800	Miscellaneous Equipment	$ 814,167	-	814,167	100%	50.25%	409,130	$ 814,167	100%	50.25%	409,130
152	39900	Other Tangible Property	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
153	39901	Other Tangible Property - Servers - H/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
154	39902	Other Tangible Property - Servers - S/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
155	39903	Other Tangible Property - Network - H/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
156	39906	Other Tang. Property - PC Hardware	$ 74,190	-	74,190	100%	50.25%	37,281	$ 74,190	100%	50.25%	37,281
157	39907	Other Tang. Property - PC Software	$ 35,064	-	35,064	100%	50.25%	17,620	$ 35,064	100%	50.25%	17,620
158	39908	Other Tang. Property - Mainframe S/W	$ 828,509	-	828,509	100%	50.25%	416,337	$ 828,509	100%	50.25%	416,337
159												
160		Total General Plant	$ 2,327,391	$ -	$ 2,327,391			$ 1,169,546	$ 2,310,764			$ 1,161,191
161												
162		Total Plant (Div 91)	$ 3,622,252	$ -	$ 3,622,252			$ 1,820,231	$ 3,605,625			$ 1,811,876
163												
164		CWIP With out AFUDC	$ (10,502)	$ -	$ (10,502)	100%	50.25%	$ (5,277)	$ (10,502)	100%	50.25%	$ (5,277)

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Workpaper Reference No(s).

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Line No.	Acct. No.	Account / SubAccount Titles	**3/31/2019** Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month** Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
165												
166		**Shared Services General Office (Division 002)**										
167												
168		General Plant										
169	39000	Structures & Improvements	$ 1,411,508	$ -	$ 1,411,508	10.35%	50.25%	$ 73,413	$ 1,411,473	10.35%	50.25%	$ 73,411
170	39005	G-Structures & Improvements	$ 9,133,015	-	9,133,015	100.00%	1.55%	141,630	$ 9,133,015	100.00%	1.55%	141,630
171	39009	Improvement to leased Premises	$ 9,981,070	-	9,981,070	10.35%	50.25%	519,117	$ 9,784,879	10.35%	50.25%	508,913
172	39020	Struct & Improv AEAM	$ -	-	-	100.00%	6.44%	-	$ -	100.00%	6.44%	-
173	39029	Improv-Leased AEAM	$ -	-	-	100.00%	6.44%	-	$ -	100.00%	6.44%	-
174	39100	Office Furniture & Equipment	$ 5,149,733	-	5,149,733	10.35%	50.25%	267,838	$ 5,126,893	10.35%	50.25%	266,651
175	39102	Remittance Processing Equip	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
176	39103	Office Machines	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
177	39104	G-Office Furniture & Equip.	$ 63,741	-	63,741	100.00%	1.55%	988	$ 63,741	100.00%	1.55%	988
178	39120	Off Furn & Equip-AEAM	$ 263,338	-	263,338	100.00%	6.44%	16,952	$ 263,338	100.00%	6.44%	16,952
179	39200	Transportation Equipment	$ 7,125	-	7,125	10.35%	50.25%	371	$ 7,125	10.35%	50.25%	371
180	39300	Stores Equipment	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
181	39400	Tools, Shop & Garage Equipment	$ 138,023	-	138,023	10.35%	50.25%	7,179	$ 121,416	10.35%	50.25%	6,315
182	39420	Tools And Garage-AEAM	$ 536,387	-	536,387	100.00%	6.44%	34,528	$ 392,536	100.00%	6.44%	25,268
183	39500	Laboratory Equipment	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
184	39700	Communication Equipment	$ 1,788,308	-	1,788,308	10.35%	50.25%	93,010	$ 1,788,308	10.35%	50.25%	93,010
185	39720	Commun Equip AEAM	$ 8,824	-	8,824	100.00%	6.44%	568	$ 8,824	100.00%	6.44%	568
186	39800	Miscellaneous Equipment	$ 136,510	-	136,510	10.35%	50.25%	7,100	$ 136,510	10.35%	50.25%	7,100
187	39820	Misc Equip - AEAM	$ 7,388	-	7,388	100.00%	6.44%	476	$ 7,388	100.00%	6.44%	476
188	39900	Other Tangible Property	$ 162,268	-	162,268	10.35%	50.25%	8,440	$ 162,268	10.35%	50.25%	8,440
189	39901	Other Tangible Property - Servers - H/W	$ 36,506,046	-	36,506,046	10.35%	50.25%	1,898,685	$ 35,932,078	10.35%	50.25%	1,868,833
190	39902	Other Tangible Property - Servers - S/W	$ 19,005,572	-	19,005,572	10.35%	50.25%	988,483	$ 19,005,572	10.35%	50.25%	988,483
191	39903	Other Tangible Property - Network - H/W	$ 3,548,953	-	3,548,953	10.35%	50.25%	184,582	$ 3,548,953	10.35%	50.25%	184,582
192	39904	Other Tang. Property - CPU	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
193	39905	Other Tangible Property - MF - Hardware	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
194	39906	Other Tang. Property - PC Hardware	$ 1,911,064	-	1,911,064	10.35%	50.25%	99,395	$ 1,879,606	10.35%	50.25%	97,759
195	39907	Other Tang. Property - PC Software	$ 1,470,383	-	1,470,383	10.35%	50.25%	76,475	$ 1,471,233	10.35%	50.25%	76,519
196	39908	Other Tang. Property - Mainframe S/W	$ 78,490,636	-	78,490,636	10.35%	50.25%	4,082,310	$ 73,682,456	10.35%	50.25%	3,832,236
197	39909	Other Tang. Property - Application Software	$ 39,252	-	39,252	10.35%	50.25%	2,041	$ 39,252	10.35%	50.25%	2,041
198	39921	Servers-Hardware-AEAM	$ 1,628,900	-	1,628,900	100.00%	6.44%	104,856	$ 1,628,900	100.00%	6.44%	104,856
199	39922	Servers-Software-AEAM	$ 961,256	-	961,256	100.00%	6.44%	61,878	$ 961,256	100.00%	6.44%	61,878
200	39923	Network Hardware-AEAM	$ 60,170	-	60,170	100.00%	6.44%	3,873	$ 60,170	100.00%	6.44%	3,873
201	39924	39924-Oth Tang Prop - Gen.	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
202	39926	Pc Hardware-AEAM	$ 426,127	-	426,127	100.00%	6.44%	27,431	$ 396,158	100.00%	6.44%	25,501
203	39928	Application SW-AEAM	$ 19,396,382	-	19,396,382	100.00%	6.44%	1,248,584	$ 19,396,382	100.00%	6.44%	1,248,584
204	39931	ALGN-Servers-Hardware	$ 305,486	-	305,486	100.00%	0.00%	-	$ 303,061	100.00%	0.00%	-
205	39932	ALGN-Servers-Software	$ 356,088	-	356,088	100.00%	0.00%	-	$ 353,032	100.00%	0.00%	-
206	39938	ALGN-Application SW	$ 18,166,787	-	18,166,787	100.00%	0.00%	-	$ 17,975,135	100.00%	0.00%	-
207												
208		Total General Plant (Div 2)	$ 211,060,341	$ -	$ 211,060,341			$ 9,950,202	$ 205,040,960			$ 9,645,237
209												
210		CWIP With out AFUDC	$ 8,866,627	$ -	$ 8,866,627	10.35%	50.25%	$ 461,155	$ 8,866,627	10.35%	50.25%	$ 461,155

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Line No.	Acct. No.	Account / SubAccount Titles	3/31/2019 Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	13 Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
211												
212		**Shared Services Customer Support (Division 012)**										
213												
214		General Plant										
215	38900	Land	$ 2,874,240	$ -	$ 2,874,240	10.93%	51.88%	$ 162,995	$ 2,874,240	10.93%	51.88%	$ 162,995
216	38910	CKV-Land & Land Rights	$ 1,887,123	-	1,887,122.88	100.00%	2.33%	44,016	$ 1,887,123	100.00%	2.33%	44,016
217	39000	Structures & Improvements	$ 12,620,665	-	12,620,665.26	10.93%	51.88%	715,706	$ 12,620,665	10.93%	51.88%	715,706
218	39009	Improvement to leased Premises	$ 2,820,614	-	2,820,613.55	10.93%	51.88%	159,954	$ 2,820,614	10.93%	51.88%	159,954
219	39010	CKV-Structures & Improvements	$ 24,615,279	-	24,615,279.03	100.00%	2.33%	574,135	$ 20,859,933	100.00%	2.33%	486,544
220	39100	Office Furniture & Equipment	$ 2,468,503	-	2,468,502.59	10.93%	51.88%	139,986	$ 2,438,352	10.93%	51.88%	138,277
221	39101	Office Furniture And	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
222	39102	Remittance Processing	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
223	39103	39103-Office Furn. - Copiers & Type	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
224	39110	CKV-Office Furn & Eq	$ 2,747,979	-	2,747,979.32	100.00%	2.33%	64,095	$ 2,006,914	100.00%	2.33%	46,810
225	39210	CKV-Transportation Eq	$ 96,290	-	96,290.22	100.00%	2.33%	2,246	$ 96,290	100.00%	2.33%	2,246
226	39410	CKV-Tools Shop Garage	$ 347,775	-	347,774.50	100.00%	2.33%	8,112	$ 347,775	100.00%	2.33%	8,112
227	39510	CKV-Laboratory Equip	$ 23,632	-	23,632.07	100.00%	2.33%	551	$ 23,632	100.00%	2.33%	551
228	39700	Communication Equipment	$ 1,913,117	-	1,913,117.11	10.93%	51.88%	108,491	$ 1,913,117	10.93%	51.88%	108,491
229	39710	CKV-Communication Equipment	$ 294,319	-	294,319.45	100.00%	2.33%	6,865	$ 294,319	100.00%	2.33%	6,865
230	39800	Miscellaneous Equipment	$ 70,016	-	70,015.66	10.93%	51.88%	3,971	$ 70,016	10.93%	51.88%	3,971
231	39810	CKV-Misc Equipment	$ 509,283	-	509,282.85	100.00%	2.33%	11,879	$ 509,283	100.00%	2.33%	11,879
232	39900	Other Tangible Property	$ 629,166	-	629,166.46	10.93%	51.88%	35,679	$ 629,166	10.93%	51.88%	35,679
233	39901	Other Tangible Property - Servers - H/W	$ 9,312,630	-	9,312,629.87	10.93%	51.88%	528,110	$ 9,312,040	10.93%	51.88%	528,077
234	39902	Other Tangible Property - Servers - S/W	$ 1,891,145	-	1,891,144.70	10.93%	51.88%	107,245	$ 1,891,145	10.93%	51.88%	107,245
235	39903	Other Tangible Property - Network - H/W	$ 629,226	-	629,225.62	10.93%	51.88%	35,683	$ 629,226	10.93%	51.88%	35,683
236	39906	Other Tang. Property - PC Hardware	$ 954,590	-	954,590.22	10.93%	51.88%	54,134	$ 926,171	10.93%	51.88%	52,522
237	39907	Other Tang. Property - PC Software	$ 190,247	-	190,246.97	10.93%	51.88%	10,789	$ 190,247	10.93%	51.88%	10,789
238	39908	Other Tang. Property - Mainframe S/W	$ 90,725,192	-	90,725,191.52	10.93%	51.88%	5,144,940	$ 90,020,745	10.93%	51.88%	5,104,992
239	39910	CKV-Other Tangible Property	$ 320,518	-	320,517.97	100.00%	2.33%	7,476	$ 260,295	100.00%	2.33%	6,071
240	39916	CKV-Oth Tang Prop-PC Hardware	$ 312,290	-	312,289.64	100.00%	2.33%	7,284	$ 290,740	100.00%	2.33%	6,781
241	39917	CKV-Oth Tang Prop-PC Software	$ 130,749	-	130,748.77	100.00%	2.33%	3,050	$ 122,540	100.00%	2.33%	2,858
242	39918	CKV-Oth Tang Prop-App	$ 20,560	-	20,560.16	100.00%	2.33%	480	$ 20,560	100.00%	2.33%	480
243	39924	Oth Tang Prop - Gen.	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
244												
245		Total General Plant (Div 12)	$ 158,405,146	$ -	$ 158,405,146			$ 7,937,872	$ 153,055,146			$ 7,787,594
246												
247		CWIP With out AFUDC	$ 3,382,555	$ -	$ 3,382,555	10.93%	51.88%	$ 191,822	$ 3,382,555	10.93%	51.88%	$ 191,822
248												
249		Total Plant (Div 009, 091, 002, 012)	$1,032,511,028	$ -	$ 1,032,511,028			$ 679,131,593	$ 999,904,154			$ 657,447,129
250												
251		Total CWIP Without AFUDC (Div 009, 091, 002, 012)	$ 39,084,184		$ 39,084,184			$ 27,493,203	$ 39,084,184			$ 27,493,203
252												

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Line No.	Acct. No.	Account / SubAccount Titles	**12/31/2017** Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month** Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
		Kentucky Direct (Division 009)										
1		Intangible Plant										
2	30100	Organization	$ 8,330	$ -	$ 8,330	100%	100%	$ 8,330	$ 8,330	100%	100%	$ 8,330
3	30200	Franchises & Consents	$ 119,853	-	119,853	100%	100%	119,853	$ 119,853	100%	100%	119,853
4												
5		Total Intangible Plant	$ 128,182	$ -	$ 128,182			$ 128,182	$ 128,182			$ 128,182
6												
7		Natural Gas Production Plant										
8	32540	Rights of Ways	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
9	33202	Tributary Lines	$ -	-	-	100%	100%	-	$ -	100%	100%	-
10	33400	Field Meas. & Reg. Sta. Equip	$ -	-	-	100%	100%	-	$ -	100%	100%	-
11												
12		Total Natural Gas Production Plant	$ -	$ -	$ -			$ -	$ -			$ -
13												
14		Storage Plant										
15	35010	Land	$ 261,127	$ -	$ 261,127	100%	100%	$ 261,127	$ 261,127	100%	100%	$ 261,127
16	35020	Rights of Way	$ 4,682	-	4,682	100%	100%	4,682	$ 4,682	100%	100%	4,682
17	35100	Structures and Improvements	$ 17,916	-	17,916	100%	100%	17,916	$ 17,916	100%	100%	17,916
18	35102	Compression Station Equipment	$ 153,261	-	153,261	100%	100%	153,261	$ 153,261	100%	100%	153,261
19	35103	Meas. & Reg. Sta. Structues	$ 23,138	-	23,138	100%	100%	23,138	$ 23,138	100%	100%	23,138
20	35104	Other Structures	$ 137,443	-	137,443	100%	100%	137,443	$ 137,443	100%	100%	137,443
21	35200	Wells \ Rights of Way	$ 7,430,334	-	7,430,334	100%	100%	7,430,334	$ 7,464,274	100%	100%	7,464,274
22	35201	Well Construction	$ 1,699,999	-	1,699,999	100%	100%	1,699,999	$ 1,699,999	100%	100%	1,699,999
23	35202	Well Equipment	$ 415,819	-	415,819	100%	100%	415,819	$ 415,819	100%	100%	415,819
24	35203	Cushion Gas	$ 1,694,833	-	1,694,833	100%	100%	1,694,833	$ 1,694,833	100%	100%	1,694,833
25	35210	Leaseholds	$ 178,530	-	178,530	100%	100%	178,530	$ 178,530	100%	100%	178,530
26	35211	Storage Rights	$ 54,614	-	54,614	100%	100%	54,614	$ 54,614	100%	100%	54,614
27	35301	Field Lines	$ 178,497	-	178,497	100%	100%	178,497	$ 178,497	100%	100%	178,497
28	35302	Tributary Lines	$ 209,458	-	209,458	100%	100%	209,458	$ 209,458	100%	100%	209,458
29	35400	Compressor Station Equipment	$ 923,446	-	923,446	100%	100%	923,446	$ 923,446	100%	100%	923,446
30	35500	Meas & Reg. Equipment	$ 343,935	-	343,935	100%	100%	343,935	$ 284,402	100%	100%	284,402
31	35600	Purification Equipment	$ 414,663	-	414,663	100%	100%	414,663	$ 414,663	100%	100%	414,663
32												
33		Total Storage Plant	$ 14,141,695	$ -	$ 14,141,695			$ 14,141,695	$ 14,116,102			$ 14,116,102

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Type of Filing:___X____Original________Updated ________Revised — Schedule B-2 B
Workpaper Reference No(s). — Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	**12/31/2017** Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month** Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
34												
35		Transmission Plant										
36	36510	Land	$ 26,970	$ -	$ 26,970	100%	100%	$ 26,970	$ 26,970	100%	100%	$ 26,970
37	36520	Rights of Way	$ 867,772	-	867,772	100%	100%	867,772	$ 867,772	100%	100%	867,772
38	36602	Structures & Improvements	$ 49,002	-	49,002	100%	100%	49,002	$ 49,002	100%	100%	49,002
39	36603	Other Structues	$ 60,826	-	60,826	100%	100%	60,826	$ 60,826	100%	100%	60,826
40	36700	Mains Cathodic Protection	$ 158,925	-	158,925	100%	100%	158,925	$ 158,925	100%	100%	158,925
41	36701	Mains - Steel	$ 27,643,442	-	27,643,442	100%	100%	27,643,442	$ 27,644,379	100%	100%	27,644,379
42	36900	Meas. & Reg. Equipment	$ 731,467	-	731,467	100%	100%	731,467	$ 731,467	100%	100%	731,467
43	36901	Meas. & Reg. Equipment	$ 2,269,556	-	2,269,556	100%	100%	2,269,556	$ 2,269,556	100%	100%	2,269,556
44												
45		Total Transmission Plant	$ 31,807,960	$ -	$ 31,807,960			$ 31,807,960	$ 31,808,897			$ 31,808,897
46												
47		Distribution Plant										
48	37400	Land & Land Rights	$ 531,167	$ -	$ 531,167	100%	100%	$ 531,167	$ 531,167	100%	100%	$ 531,167
49	37401	Land	$ 37,326	-	37,326	100%	100%	37,326	$ 37,326	100%	100%	37,326
50	37402	Land Rights	$ 2,729,253	-	2,729,253	100%	100%	2,729,253	$ 2,428,381	100%	100%	2,428,381
51	37403	Land Other	$ 2,784	-	2,784	100%	100%	2,784	$ 2,784	100%	100%	2,784
52	37500	Structures & Improvements	$ 336,168	-	336,168	100%	100%	336,168	$ 336,168	100%	100%	336,168
53	37501	Structures & Improvements T.B.	$ 99,818	-	99,818	100%	100%	99,818	$ 99,818	100%	100%	99,818
54	37502	Land Rights	$ 46,264	-	46,264	100%	100%	46,264	$ 46,264	100%	100%	46,264
55	37503	Improvements	$ 4,005	-	4,005	100%	100%	4,005	$ 4,005	100%	100%	4,005
56	37600	Mains Cathodic Protection	$ 20,839,824	-	20,839,824	100%	100%	20,839,824	$ 20,931,757	100%	100%	20,931,757
57	37601	Mains - Steel	$ 139,633,200	-	139,633,200	100%	100%	139,633,200	$ 139,186,817	100%	100%	139,186,817
58	37602	Mains - Plastic	$ 108,190,082	-	108,190,082	100%	100%	108,190,082	$ 97,764,861	100%	100%	97,764,861
59	37800	Meas & Reg. Sta. Equip - General	$ 11,143,483	-	11,143,483	100%	100%	11,143,483	$ 9,597,586	100%	100%	9,597,586
60	37900	Meas & Reg. Sta. Equip - City Gate	$ 4,390,986	-	4,390,986	100%	100%	4,390,986	$ 4,016,210	100%	100%	4,016,210
61	37905	Meas & Reg. Sta. Equipment T.b.	$ 2,137,220	-	2,137,220	100%	100%	2,137,220	$ 1,753,407	100%	100%	1,753,407
62	38000	Services	$ 125,090,929	-	125,090,929	100%	100%	125,090,929	$ 115,920,466	100%	100%	115,920,466
63	38100	Meters	$ 34,572,059	-	34,572,059	100%	100%	34,572,059	$ 30,218,956	100%	100%	30,218,956
64	38200	Meter Installaitons	$ 55,930,897	-	55,930,897	100%	100%	55,930,897	$ 55,326,917	100%	100%	55,326,917
65	38300	House Regulators	$ 11,066,327	-	11,066,327	100%	100%	11,066,327	$ 10,650,749	100%	100%	10,650,749
66	38400	House Reg. Installations	$ 218,301	-	218,301	100%	100%	218,301	$ 199,426	100%	100%	199,426
67	38500	Ind. Meas. & Reg. Sta. Equipment	$ 5,189,650	-	5,189,650	100%	100%	5,189,650	$ 5,160,499	100%	100%	5,160,499
68												
69		Total Distribution Plant	$ 522,189,742	$ -	$ 522,189,742			$ 522,189,742	$ 494,213,562			$ 494,213,562

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Line No.	Acct. No.	Account / SubAccount Titles	**12/31/2017** Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month** Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
70												
71		General Plant **										
72	38900	Land & Land Rights	$ 1,211,697	$ -	$ 1,211,697	100%	100%	$ 1,211,697	$ 1,211,697	100%	100%	$ 1,211,697
73	39000	Structures & Improvements	$ 7,144,406	-	7,144,406	100%	100%	7,144,406	$ 7,142,326	100%	100%	7,142,326
74	39002	Structures-Brick	$ 173,115	-	173,115	100%	100%	173,115	$ 173,115	100%	100%	173,115
75	39003	Improvements	$ 709,199	-	709,199	100%	100%	709,199	$ 709,199	100%	100%	709,199
76	39004	Air Conditioning Equipment	$ 12,955	-	12,955	100%	100%	12,955	$ 12,955	100%	100%	12,955
77	39009	Improvement to leased Premises	$ 1,246,194	-	1,246,194	100%	100%	1,246,194	$ 1,246,194	100%	100%	1,246,194
78	39100	Office Furniture & Equipment	$ 1,794,619	-	1,794,619	100%	100%	1,794,619	$ 1,794,619	100%	100%	1,794,619
79	39103	Office Machines	$ -	-	-	100%	100%	-	$ -	100%	100%	-
80	39200	Transportation Equipment	$ 220,987	-	220,987	100%	100%	220,987	$ 245,237	100%	100%	245,237
81	39202	Trailers	$ -	-	-	100%	100%	-	$ 1,323	100%	100%	1,323
82	39400	Tools, Shop & Garage Equipment	$ 4,189,376	-	4,189,376	100%	100%	4,189,376	$ 3,457,519	100%	100%	3,457,519
83	39603	Ditchers	$ 39,610	-	39,610	100%	100%	39,610	$ 39,610	100%	100%	39,610
84	39604	Backhoes	$ 62,747	-	62,747	100%	100%	62,747	$ 62,747	100%	100%	62,747
85	39605	Welders	$ 19,427	-	19,427	100%	100%	19,427	$ 19,427	100%	100%	19,427
86	39700	Communication Equipment	$ 358,965	-	358,965	100%	100%	358,965	$ 358,965	100%	100%	358,965
87	39701	Communication Equip.	$ -	-	-	100%	100%	-	$ -	100%	100%	-
88	39702	Communication Equip.	$ -	-	-	100%	100%	-	$ -	100%	100%	-
89	39705	Communication Equip. - Telemetering	$ -	-	-	100%	100%	-	$ -	100%	100%	-
90	39800	Miscellaneous Equipment	$ 3,832,806	-	3,832,806	100%	100%	3,832,806	$ 3,858,368	100%	100%	3,858,368
91	39901	Servers Hardware	$ 14,390	-	14,390	100%	100%	14,390	$ -	100%	100%	-
92	39902	Servers Software	$ -	-	-	100%	100%	-	$ -	100%	100%	-
93	39903	Other Tangible Property - Network - H/W	$ 134,599	-	134,599	100%	100%	134,599	$ 134,599	100%	100%	134,599
94	39906	Other Tang. Property - PC Hardware	$ 1,497,305	-	1,497,305	100%	100%	1,497,305	$ 1,330,835	100%	100%	1,330,835
95	39907	Other Tang. Property - PC Software	$ -	-	-	100%	100%	-	$ -	100%	100%	-
96	39908	Other Tang. Property - Mainframe S/W	$ 123,515	-	123,515	100%	100%	123,515	$ 123,515	100%	100%	123,515
97												
98		Total General Plant	$ 22,785,912	$ -	$ 22,785,912			$ 22,785,912	$ 21,922,250			$ 21,922,250
99												
100		Total Plant (Div 9)	$ 591,053,492	$ -	$ 591,053,492			$ 591,053,492	$ 562,188,994			$ 562,188,994
101												
102		CWIP With out AFUDC	$ 26,845,505	$ -	$ 26,845,505	100%	100%	$ 26,845,505	$ 21,588,718	100%	100%	$ 21,588,718

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Line No.	Acct. No.	Account / SubAccount Titles	**12/31/2017** Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month** Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
103												
104		**Kentucky-Mid-States General Office (Division 091)**										
105												
106		Intangible Plant										
107	30100	Organization	$ 185,309	$ -	$ 185,309	100%	50.25%	$ 93,120	$ 185,309	100%	50.25%	93,120
108	30300	Misc Intangible Plant	$ 1,109,552	-	1,109,552	100%	50.25%	557,565	$ 1,109,552	100%	50.25%	557,565
109												
110		Total Intangible Plant	$ 1,294,861	$ -	$ 1,294,861			$ 650,685	$ 1,294,861			$ 650,685
111												
112		Distribution Plant										
113	37400	Land & Land Rights	$ -	$ -	$ -	100%	50.25%	$ -	$ -	100%	50.25%	$ -
114	35010	Land	-	-	-	100%	50.25%	-	-	100%	50.25%	-
115	37402	Land Rights	-	-	-	100%	50.25%	-	-	100%	50.25%	-
116	37403	Land Other	-	-	-	100%	50.25%	-	-	100%	50.25%	-
117	36602	Structures & Improvements	-	-	-	100%	50.25%	-	-	100%	50.25%	-
118	37402	Land Rights	-	-	-	100%	50.25%	-	-	100%	50.25%	-
119	37501	Structures & Improvements T.B.	-	-	-	100%	50.25%	-	-	100%	50.25%	-
120	37503	Improvements	-	-	-	100%	50.25%	-	-	100%	50.25%	-
121	36700	Mains Cathodic Protection	-	-	-	100%	50.25%	-	-	100%	50.25%	-
122	36701	Mains - Steel	-	-	-	100%	50.25%	-	-	100%	50.25%	-
123	37602	Mains - Plastic	-	-	-	100%	50.25%	-	-	100%	50.25%	-
124	37800	Meas & Reg. Sta. Equip - General	-	-	-	100%	50.25%	-	-	100%	50.25%	-
125	37900	Meas & Reg. Sta. Equip - City Gate	-	-	-	100%	50.25%	-	-	100%	50.25%	-
126	37905	Meas & Reg. Sta. Equipment T.b.	-	-	-	100%	50.25%	-	-	100%	50.25%	-
127	38000	Services	-	-	-	100%	50.25%	-	-	100%	50.25%	-
128	38100	Meters	-	-	-	100%	50.25%	-	-	100%	50.25%	-
129	38200	Meter Installaitons	-	-	-	100%	50.25%	-	-	100%	50.25%	-
130	38300	House Regulators	-	-	-	100%	50.25%	-	-	100%	50.25%	-
131	38400	House Reg. Installations	-	-	-	100%	50.25%	-	-	100%	50.25%	-
132	38500	Ind. Meas. & Reg. Sta. Equipment	-	-	-	100%	50.25%	-	-	100%	50.25%	-
133	38600	Other Prop. On Cust. Prem	-	-	-	100%	50.25%	-	-	100%	50.25%	-
134												
135		Total Distribution Plant	$ -	$ -	$ -			$ -	$ -			$ -

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Plant in Service by Accounts and SubAccounts
as of December 31, 2017

Data:__X___Base Period______Forecasted Period — FR 16(8)(b)2
Type of Filing:___X____Original________Updated ________Revised — Schedule B-2 B
Workpaper Reference No(s). — Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	12/31/2017 Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	13 Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
136												
137		General Plant										
138	39001	Structures Frame	$ 179,339	-	179,339	100%	50.25%	90,120	$ 179,339	100%	50.25%	90,120
139	39004	Air Conditioning Equipment	$ 15,384	-	15,384	100%	50.25%	7,731	$ 15,384	100%	50.25%	7,731
140	39009	Improvement to leased Premises	$ 38,834	-	38,834	100%	50.25%	19,515	$ 38,834	100%	50.25%	19,515
141	39100	Office Furniture & Equipment	$ 41,397	-	41,397	100%	50.25%	20,803	$ 41,397	100%	50.25%	20,803
142	39101	Office Furniture And	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
143	39103	Office Machines	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
144	39200	Transportation Equipment	$ 27,285	-	27,285	100%	50.25%	13,711	$ 27,285	100%	50.25%	13,711
145	39300	Stores Equipment	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
146	39400	Tools, Shop & Garage Equipment	$ 175,867	-	175,867	100%	50.25%	88,376	$ 172,787	100%	50.25%	86,828
147	39600	Power Operated Equipment	$ 20,516	-	20,516	100%	50.25%	10,309	$ 20,516	100%	50.25%	10,309
148	39700	Communication Equipment	$ 37,541	-	37,541	100%	50.25%	18,865	$ 34,653	100%	50.25%	17,414
149	39701	Communication Equip.	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
150	39702	Communication Equip.	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
151	39800	Miscellaneous Equipment	$ 814,167	-	814,167	100%	50.25%	409,130	$ 814,167	100%	50.25%	409,130
152	39900	Other Tangible Property	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
153	39901	Other Tangible Property - Servers - H/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
154	39902	Other Tangible Property - Servers - S/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
155	39903	Other Tangible Property - Network - H/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
156	39906	Other Tang. Property - PC Hardware	$ 74,190	-	74,190	100%	50.25%	37,281	$ 74,190	100%	50.25%	37,281
157	39907	Other Tang. Property - PC Software	$ 35,064	-	35,064	100%	50.25%	17,620	$ 35,064	100%	50.25%	17,620
158	39908	Other Tang. Property - Mainframe S/W	$ 828,509	-	828,509	100%	50.25%	416,337	$ 828,509	100%	50.25%	416,337
159												
160		Total General Plant	$ 2,288,092	$ -	$ 2,288,092			$ 1,149,797	$ 2,282,124			$ 1,146,799
161												
162		Total Plant (Div 91)	$ 3,582,953	$ -	$ 3,582,953			$ 1,800,483	$ 3,576,985			$ 1,797,484
163												
164		CWIP With out AFUDC	$ (10,502)	$ -	$ (10,502)	100%	50.25%	$ (5,277)	$ (3,344)	100%	50.25%	$ (1,680)

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Plant in Service by Accounts and SubAccounts
as of December 31, 2017

Data:__X___Base Period______Forecasted Period | FR 16(8)(b)2
Type of Filing:___X____Original________Updated ________Revised | Schedule B-2 B
Workpaper Reference No(s). | Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	12/31/2017 Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	13 Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
165												
166	**Shared Services General Office (Division 002)**											
167												
168		General Plant										
169	39000	Structures & Improvements	$ 1,411,421	$ -	$ 1,411,421	10.35%	50.25%	$ 73,408	$ 1,636,435	10.35%	50.25%	$ 85,111
170	39005	G-Structures & Improvements	$ 9,133,015	-	9,133,015	100.00%	1.55%	141,630	$ 9,133,015	100.00%	1.55%	141,630
171	39009	Improvement to leased Premises	$ 9,490,593	-	9,490,593	10.35%	50.25%	493,607	$ 9,332,933	10.35%	50.25%	485,407
172	39020	Struct & Improv AEAM	$ -	-	-	100.00%	6.44%	-	$ -	100.00%	6.44%	-
173	39029	Improv-Leased AEAM	$ -	-	-	10.35%	6.44%	-	$ -	10.35%	6.44%	-
174	39100	Office Furniture & Equipment	$ 5,092,632	-	5,092,632	10.35%	50.25%	264,869	$ 6,119,581	10.35%	50.25%	318,280
175	39102	Remittance Processing Equip	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
176	39103	Office Machines	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
177	39104	G-Office Furniture & Equip.	$ 63,741	-	63,741	100.00%	1.55%	988	$ 63,741	100.00%	1.55%	988
178	39120	Off Furn & Equip-AEAM	$ 263,338	-	263,338	100.00%	6.44%	16,952	$ 263,338	100.00%	6.44%	16,952
179	39200	Transportation Equipment	$ 7,125	-	7,125	10.35%	50.25%	371	$ 7,125	10.35%	50.25%	371
180	39300	Stores Equipment	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
181	39400	Tools, Shop & Garage Equipment	$ 96,506	-	96,506	10.35%	50.25%	5,019	$ 121,579	10.35%	50.25%	6,323
182	39420	Tools And Garage-AEAM	$ 176,760	-	176,760	100.00%	6.44%	11,378	$ 76,749	100.00%	6.44%	4,940
183	39500	Laboratory Equipment	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
184	39700	Communication Equipment	$ 1,788,308	-	1,788,308	10.35%	50.25%	93,010	$ 1,788,308	10.35%	50.25%	93,010
185	39720	Commun Equip AEAM	$ 8,824	-	8,824	100.00%	6.44%	568	$ 8,824	100.00%	6.44%	568
186	39800	Miscellaneous Equipment	$ 136,510	-	136,510	10.35%	50.25%	7,100	$ 136,510	10.35%	50.25%	7,100
187	39820	Misc Equip - AEAM	$ 7,388	-	7,388	100.00%	6.44%	476	$ 7,388	100.00%	6.44%	476
188	39900	Other Tangible Property	$ 162,268	-	162,268	10.35%	50.25%	8,440	$ 162,268	10.35%	50.25%	8,440
189	39901	Other Tangible Property - Servers - H/W	$ 35,071,127	-	35,071,127	10.35%	50.25%	1,824,055	$ 34,681,159	10.35%	50.25%	1,803,773
190	39902	Other Tangible Property - Servers - S/W	$ 19,005,572	-	19,005,572	10.35%	50.25%	988,483	$ 19,005,572	10.35%	50.25%	988,483
191	39903	Other Tangible Property - Network - H/W	$ 3,548,953	-	3,548,953	10.35%	50.25%	184,582	$ 3,548,953	10.35%	50.25%	184,582
192	39904	Other Tang. Property - CPU	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
193	39905	Other Tangible Property - MF - Hardware	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
194	39906	Other Tang. Property - PC Hardware	$ 1,832,420	-	1,832,420	10.35%	50.25%	95,304	$ 1,812,255	10.35%	50.25%	94,256
195	39907	Other Tang. Property - PC Software	$ 1,472,508	-	1,472,508	10.35%	50.25%	76,585	$ 1,473,097	10.35%	50.25%	76,616
196	39908	Other Tang. Property - Mainframe S/W	$ 66,470,185	-	66,470,185	10.35%	50.25%	3,457,125	$ 63,125,893	10.35%	50.25%	3,283,188
197	39909	Other Tang. Property - Application Software	$ 39,252	-	39,252	10.35%	50.25%	2,041	$ 39,252	10.35%	50.25%	2,041
198	39921	Servers-Hardware-AEAM	$ 1,628,900	-	1,628,900	100.00%	6.44%	104,856	$ 1,628,900	100.00%	6.44%	104,856
199	39922	Servers-Software-AEAM	$ 961,256	-	961,256	100.00%	6.44%	61,878	$ 961,256	100.00%	6.44%	61,878
200	39923	Network Hardware-AEAM	$ 60,170	-	60,170	100.00%	6.44%	3,873	$ 60,170	100.00%	6.44%	3,873
201	39924	39924-Oth Tang Prop - Gen.	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
202	39926	Pc Hardware-AEAM	$ 351,205	-	351,205	100.00%	6.44%	22,608	$ 326,577	100.00%	6.44%	21,022
203	39928	Application SW-AEAM	$ 19,396,382	-	19,396,382	100.00%	6.44%	1,248,584	$ 19,325,875	100.00%	6.44%	1,244,045
204	39931	ALGN-Servers-Hardware	$ 299,424	-	299,424	100.00%	0.00%	-	$ 297,703	100.00%	0.00%	-
205	39932	ALGN-Servers-Software	$ 348,449	-	348,449	100.00%	0.00%	-	$ 346,280	100.00%	0.00%	-
206	39938	ALGN-Application SW	$ 17,687,657	-	17,687,657	100.00%	0.00%	-	$ 17,551,623	100.00%	0.00%	-
207												
208		Total General Plant (Div 2)	$ 196,011,889	$ -	$ 196,011,889			$ 9,187,790	$ 193,042,359			$ 9,038,209
209												
210		CWIP With out AFUDC	$ 8,866,627	$ -	$ 8,866,627	10.35%	50.25%	$ 461,155	$ 7,920,492	10.35%	50.25%	$ 411,946

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Plant in Service by Accounts and SubAccounts
as of December 31, 2017

Data:__X___Base Period______Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)2
Schedule B-2 B
Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	**12/31/2017** Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month** Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
			(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (c) * (d) * (e)	(g)	(h)	(i)	(j) = (g) * (h) * (i)
211												
212		**Shared Services Customer Support (Division 012)**										
213												
214		General Plant										
215	38900	Land	$ 2,874,240	$ -	$ 2,874,240	10.93%	51.88%	$ 162,995	$ 2,874,240	10.93%	51.88%	$ 162,995
216	38910	CKV-Land & Land Rights	$ 1,887,123	-	1,887,122.88	100.00%	2.33%	44,016	$ 1,887,123	100.00%	2.33%	44,016
217	39000	Structures & Improvements	$ 12,620,665	-	12,620,665.26	10.93%	51.88%	715,706	$ 12,620,665	10.93%	51.88%	715,706
218	39009	Improvement to leased Premises	$ 2,820,614	-	2,820,613.55	10.93%	51.88%	159,954	$ 2,820,614	10.93%	51.88%	159,954
219	39010	CKV-Structures & Improvements	$ 15,226,913	-	15,226,913.21	100.00%	2.33%	355,158	$ 12,646,969	100.00%	2.33%	294,982
220	39100	Office Furniture & Equipment	$ 2,393,125	-	2,393,125.46	10.93%	51.88%	135,712	$ 2,374,128	10.93%	51.88%	134,635
221	39101	Office Furniture And	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
222	39102	Remittance Processing	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
223	39103	39103-Office Furn. - Copiers & Type	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
224	39110	CKV-Office Furn & Eq	$ 895,317	-	895,316.77	100.00%	2.33%	20,883	$ 443,357	100.00%	2.33%	10,341
225	39210	CKV-Transportation Eq	$ 96,290	-	96,290.22	100.00%	2.33%	2,246	$ 96,290	100.00%	2.33%	2,246
226	39410	CKV-Tools Shop Garage	$ 347,775	-	347,774.50	100.00%	2.33%	8,112	$ 347,775	100.00%	2.33%	8,112
227	39510	CKV-Laboratory Equip	$ 23,632	-	23,632.07	100.00%	2.33%	551	$ 23,632	100.00%	2.33%	551
228	39700	Communication Equipment	$ 1,913,117	-	1,913,117.11	10.93%	51.88%	108,491	$ 1,913,117	10.93%	51.88%	108,491
229	39710	CKV-Communication Equipment	$ 294,319	-	294,319.45	100.00%	2.33%	6,865	$ 294,319	100.00%	2.33%	6,865
230	39800	Miscellaneous Equipment	$ 70,016	-	70,015.66	10.93%	51.88%	3,971	$ 70,016	10.93%	51.88%	3,971
231	39810	CKV-Misc Equipment	$ 509,283	-	509,282.85	100.00%	2.33%	11,879	$ 509,283	100.00%	2.33%	11,879
232	39900	Other Tangible Property	$ 629,166	-	629,166.46	10.93%	51.88%	35,679	$ 629,166	10.93%	51.88%	35,679
233	39901	Other Tangible Property - Servers - H/W	$ 9,311,156	-	9,311,156.16	10.93%	51.88%	528,027	$ 9,310,809	10.93%	51.88%	528,007
234	39902	Other Tangible Property - Servers - S/W	$ 1,891,145	-	1,891,144.70	10.93%	51.88%	107,245	$ 1,891,145	10.93%	51.88%	107,245
235	39903	Other Tangible Property - Network - H/W	$ 629,226	-	629,225.62	10.93%	51.88%	35,683	$ 629,226	10.93%	51.88%	35,683
236	39906	Other Tang. Property - PC Hardware	$ 883,541	-	883,541.42	10.93%	51.88%	50,105	$ 866,038	10.93%	51.88%	49,112
237	39907	Other Tang. Property - PC Software	$ 190,247	-	190,246.97	10.93%	51.88%	10,789	$ 190,247	10.93%	51.88%	10,789
238	39908	Other Tang. Property - Mainframe S/W	$ 88,964,075	-	88,964,074.63	10.93%	51.88%	5,045,069	$ 88,560,536	10.93%	51.88%	5,022,185
239	39910	CKV-Other Tangible Property	$ 169,960	-	169,959.94	100.00%	2.33%	3,964	$ 130,348	100.00%	2.33%	3,040
240	39916	CKV-Oth Tang Prop-PC Hardware	$ 258,415	-	258,414.52	100.00%	2.33%	6,027	$ 239,791	100.00%	2.33%	5,593
241	39917	CKV-Oth Tang Prop-PC Software	$ 110,227	-	110,226.79	100.00%	2.33%	2,571	$ 104,928	100.00%	2.33%	2,447
242	39918	CKV-Oth Tang Prop-App	$ 20,560	-	20,560.16	100.00%	2.33%	480	$ 20,560	100.00%	2.33%	480
243	39924	Oth Tang Prop - Gen.	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
244												
245		Total General Plant (Div 12)	$ 145,030,146	$ -	$ 145,030,146			$ 7,562,177	$ 141,494,323			$ 7,465,004
246												
247		CWIP With out AFUDC	$ 3,382,555	$ -	$ 3,382,555	10.93%	51.88%	$ 191,822	$ 2,948,970	10.93%	51.88%	$ 167,233
248												
249		Total Plant (Div 009, 091, 002, 012)	$ 935,678,480	$ -	$ 935,678,480			$ 609,603,942	$ 900,302,662			$ 580,489,691
250												
251		Total CWIP Without AFUDC (Div 009, 091, 002, 012)	$ 39,084,184		$ 39,084,184			$ 27,493,203	$ 32,454,836			$ 22,166,217

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Jurisdictional Accumulated Depreciation & Amortization
as of December 31, 2017

Data:__X___Base Period______Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)3
Schedule B-3 B
Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	**Ending Balance**	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month Average**	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
		Kentucky Direct (Division 009)										
1		Intangible Plant										
2	30100	Organization	$ 8,330	$ -	$ 8,330	100%	100%	$ 8,330	$ 8,330	100%	100%	$ 8,330
3	30200	Franchises & Consents	$ 119,853	-	119,853	100%	100%	119,853	$ 119,853	100%	100%	119,853
4												
5		Total Intangible Plant Reserves	$ 128,182	$ -	$ 128,182			$ 128,182	$ 128,182			$ 128,182
6												
7		Natural Gas Production Plant										
8	32540	Rights of Ways	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
9	33202	Tributary Lines	$ -	-	-	100%	100%	-	$ -	100%	100%	-
10	33400	Field Meas. & Reg. Sta. Equip	$ -	-	-	100%	100%	-	$ -	100%	100%	-
11												
12		Total Natural Gas Production Plant Reserv	$ -	$ -	$ -			$ -	$ -			$ -
13												
14		Storage Plant										
15	35010	Land	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
16	35020	Rights of Way	$ 4,428	-	4,428	100%	100%	4,428	$ 4,422	100%	100%	4,422
17	35100	Structures and Improvements	$ 5,766	-	5,766	100%	100%	5,766	$ 5,616	100%	100%	5,616
18	35102	Compression Station Equipment	$ 110,373	-	110,373	100%	100%	110,373	$ 109,407	100%	100%	109,407
19	35103	Meas. & Reg. Sta. Structues	$ 20,113	-	20,113	100%	100%	20,113	$ 20,007	100%	100%	20,007
20	35104	Other Structures	$ 97,024	-	97,024	100%	100%	97,024	$ 96,131	100%	100%	96,131
21	35200	Wells \ Rights of Way	$ 1,059,936	-	1,059,936	100%	100%	1,059,936	$ 1,022,096	100%	100%	1,022,096
22	35201	Well Construction	$ 1,374,503	-	1,374,503	100%	100%	1,374,503	$ 1,361,668	100%	100%	1,361,668
23	35202	Well Equipment	$ 458,146	-	458,146	100%	100%	458,146	$ 457,626	100%	100%	457,626
24	35203	Cushion Gas	$ 708,766	-	708,766	100%	100%	708,766	$ 693,512	100%	100%	693,512
25	35210	Leaseholds	$ 167,004	-	167,004	100%	100%	167,004	$ 166,692	100%	100%	166,692
26	35211	Storage Rights	$ 43,115	-	43,115	100%	100%	43,115	$ 42,874	100%	100%	42,874
27	35301	Field Lines	$ 139,135	-	139,135	100%	100%	139,135	$ 138,412	100%	100%	138,412
28	35302	Tributary Lines	$ 194,114	-	194,114	100%	100%	194,114	$ 193,266	100%	100%	193,266
29	35400	Compressor Station Equipment	$ 469,226	-	469,226	100%	100%	469,226	$ 460,915	100%	100%	460,915
30	35500	Meas & Reg. Equipment	$ 195,122	-	195,122	100%	100%	195,122	$ 199,503	100%	100%	199,503
31	35600	Purification Equipment	$ 177,067	-	177,067	100%	100%	177,067	$ 172,816	100%	100%	172,816
32												
33		Total Storage Plant Reserves	$ 5,223,837	$ -	$ 5,223,837			$ 5,223,837	$ 5,144,963			$ 5,144,963

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34												
35		<u>Transmission Plant</u>										
36	36510	Land	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
37	36520	Rights of Way	$ 409,113	-	409,113	100%	100%	409,113	$ 403,342	100%	100%	403,342
38	36602	Structures & Improvements	$ 15,443	-	15,443	100%	100%	15,443	$ 15,007	100%	100%	15,007
39	36603	Other Structues	$ 51,335	-	51,335	100%	100%	51,335	$ 50,794	100%	100%	50,794
40	36700	Mains Cathodic Protection	$ 106,919	-	106,919	100%	100%	106,919	$ 102,946	100%	100%	102,946
41	36701	Mains - Steel	$ 18,265,249	-	18,265,249	100%	100%	18,265,249	$ 18,006,126	100%	100%	18,006,126
42	36900	Meas. & Reg. Equipment	$ 328,270	-	328,270	100%	100%	328,270	$ 320,443	100%	100%	320,443
43	36901	Meas. & Reg. Equipment	$ 1,696,065	-	1,696,065	100%	100%	1,696,065	$ 1,671,780	100%	100%	1,671,780
44												
45		Total Production Plant - LPG Reserves	$ 20,872,395	$ -	$ 20,872,395			$ 20,872,395	$ 20,570,440			$ 20,570,440
46												
47		<u>Distribution Plant</u>										
48	37400	Land & Land Rights	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
49	37401	Land	$ -	-	-	100%	100%	-	$ -	100%	100%	-
50	37402	Land Rights	$ 158,628	-	158,628	100%	100%	158,628	$ 140,150	100%	100%	140,150
51	37403	Land Other	$ -	-	-	100%	100%	-	$ -	100%	100%	-
52	37500	Structures & Improvements	$ 102,030	-	102,030	100%	100%	102,030	$ 98,568	100%	100%	98,568
53	37501	Structures & Improvements T.B.	$ 67,985	-	67,985	100%	100%	67,985	$ 66,957	100%	100%	66,957
54	37502	Land Rights	$ 33,794	-	33,794	100%	100%	33,794	$ 33,317	100%	100%	33,317
55	37503	Improvements	$ 1,781	-	1,781	100%	100%	1,781	$ 1,740	100%	100%	1,740
56	37600	Mains Cathodic Protection	$ 12,235,479	-	12,235,479	100%	100%	12,235,479	$ 11,987,065	100%	100%	11,987,065
57	37601	Mains - Steel	$ 28,704,988	-	28,704,988	100%	100%	28,704,988	$ 28,363,167	100%	100%	28,363,167
58	37602	Mains - Plastic	$ 14,869,647	-	14,869,647	100%	100%	14,869,647	$ 13,922,298	100%	100%	13,922,298
59	37800	Meas & Reg. Sta. Equip - General	$ 2,286,706	-	2,286,706	100%	100%	2,286,706	$ 2,148,185	100%	100%	2,148,185
60	37900	Meas & Reg. Sta. Equip - City Gate	$ 836,582	-	836,582	100%	100%	836,582	$ 777,394	100%	100%	777,394
61	37905	Meas & Reg. Sta. Equipment T.b.	$ 965,480	-	965,480	100%	100%	965,480	$ 940,444	100%	100%	940,444
62	38000	Services	$ 36,490,191	-	36,490,191	100%	100%	36,490,191	$ 36,093,808	100%	100%	36,093,808
63	38100	Meters	$ 16,957,783	-	16,957,783	100%	100%	16,957,783	$ 15,884,766	100%	100%	15,884,766
64	38200	Meter Installaitons	$ 24,018,618	-	24,018,618	100%	100%	24,018,618	$ 23,364,618	100%	100%	23,364,618
65	38300	House Regulators	$ 3,701,976	-	3,701,976	100%	100%	3,701,976	$ 3,534,079	100%	100%	3,534,079
66	38400	House Reg. Installations	$ 83,732	-	83,732	100%	100%	83,732	$ 81,320	100%	100%	81,320
67	38500	Ind. Meas. & Reg. Sta. Equipment	$ 2,726,830	-	2,726,830	100%	100%	2,726,830	$ 2,656,783	100%	100%	2,656,783
68												
69		Total Distribution Plant Reserves	$ 144,242,232	$ -	$ 144,242,232			$ 144,242,232	$ 140,094,659			$ 140,094,659

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70												
71		General Plant										
72	38900	38900-Land & Land Rights	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
73	39000	39000-Structures & Improvements	$ 787,680	-	787,680	100%	100%	787,680	$ 653,447	100%	100%	653,447
74	39002	39002-Structures - Brick	$ 96,659	-	96,659	100%	100%	96,659	$ 93,405	100%	100%	93,405
75	39003	39003-Improvements	$ 247,979	-	247,979	100%	100%	247,979	$ 234,646	100%	100%	234,646
76	39004	39004-Air Conditioning Equipment	$ 4,075	-	4,075	100%	100%	4,075	$ 3,832	100%	100%	3,832
77	39009	39009-Improv. to Leased Premises	$ 1,092,668	-	1,092,668	100%	100%	1,092,668	$ 976,086	100%	100%	976,086
78	39100	39100-Office Furniture & Equipment	$ 899,145	-	899,145	100%	100%	899,145	$ 826,344	100%	100%	826,344
79	39103	Office Machines	$ -	-	-	100%	100%	-	$ -	100%	100%	-
80	39200	39200-Transportation Equipment	$ 65,707	-	65,707	100%	100%	65,707	$ 72,660	100%	100%	72,660
81	39202	39202-WKG Trailers	$ (2,550)	-	(2,550)	100%	100%	(2,550)	$ (1,247)	100%	100%	(1,247)
82	39400	39400-Tools, Shop, & Garage Equip.	$ 961,270	-	961,270	100%	100%	961,270	$ 843,926	100%	100%	843,926
83	39603	39603-Ditchers	$ 34,619	-	34,619	100%	100%	34,619	$ 30,763	100%	100%	30,763
84	39604	39604-Backhoes	$ 54,743	-	54,743	100%	100%	54,743	$ 48,634	100%	100%	48,634
85	39605	39605-Welders	$ 15,359	-	15,359	100%	100%	15,359	$ 13,467	100%	100%	13,467
86	39700	39700-Communication Equipment	$ 183,264	-	183,264	100%	100%	183,264	$ 168,420	100%	100%	168,420
87	39701	Communication Equip.	$ -	-	-	100%	100%	-	$ -	100%	100%	-
88	39702	Communication Equip.	$ -	-	-	100%	100%	-	$ -	100%	100%	-
89	39705	39705-Comm. Equip. - Telemetering	$ -	-	-	100%	100%	-	$ -	100%	100%	-
90	39800	39800-Miscellaneous Equipment	$ 1,550,890	-	1,550,890	100%	100%	1,550,890	$ 1,429,714	100%	100%	1,429,714
91	39901	Servers Hardware	$ 3,605	-	3,605	100%	100%	3,605	$ 2,854	100%	100%	2,854
92	39902	Servers Software	$ -	-	-	100%	100%	-	$ -	100%	100%	-
93	39903	39903-Oth Tang Prop - Network - H/W	$ 38,500	-	38,500	100%	100%	38,500	$ 31,428	100%	100%	31,428
94	39906	39906-Oth Tang Prop - PC Hardware	$ 818,655	-	818,655	100%	100%	818,655	$ 669,929	100%	100%	669,929
95	39907	39907-Oth Tang Prop - PC Software	$ -	-	-	100%	100%	-	$ -	100%	100%	-
96	39908	39908-Oth Tang Prop - Appl Software	$ 119,541	-	119,541	100%	100%	119,541	$ 117,719	100%	100%	117,719
97		Retirement Work in Progress	$ (3,312,255)	-	(3,312,255)	100%	100%	(3,312,255)	$ (3,074,904)	100%	100%	(3,074,904)
98		Retirement Work in Progress Recon	$ -	-	-	100%	100%	-	$ -	100%	100%	-
99		AR 15 general plant amortization	$ -	-	-	100%	100%	-	$ -	100%	100%	-
100												
101		Total General Plant Reserves	$ 3,659,556	$ -	$ 3,659,556			$ 3,659,556	$ 3,141,124			$ 3,141,124
102												
103		Total Depr Reserves (Div 9)	$ 174,126,202	$ -	$ 174,126,202			$ 174,126,202	$ 169,079,368			$ 169,079,368

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104												
105	**Kentucky-Mid-States General Office (Division 091)**											
106												
107		Intangible Plant										
108	30100	Organization	$ -	$ -	$ -	100%	50.25%	$ -	$ -	100%	50.25%	$ -
109	30300	Misc Intangible Plant	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
110												
111		Total Intangible Plant	$ -	$ -	$ -			$ -	$ -			$ -
112												
113		Distribution Plant										
114	37400	Land & Land Rights	$ -	$ -	$ -	100%	50.25%	$ -	$ -	100%	50.25%	$ -
115	35010	Land	-	-	-	100%	50.25%	-	-	100%	50.25%	-
116	37402	Land Rights	-	-	-	100%	50.25%	-	-	100%	50.25%	-
117	37403	Land Other	-	-	-	100%	50.25%	-	-	100%	50.25%	-
118	36602	Structures & Improvements	-	-	-	100%	50.25%	-	-	100%	50.25%	-
119	37501	Structures & Improvements T.B.	-	-	-	100%	50.25%	-	-	100%	50.25%	-
120	37402	Land Rights	-	-	-	100%	50.25%	-	-	100%	50.25%	-
121	37503	Improvements	-	-	-	100%	50.25%	-	-	100%	50.25%	-
122	36700	Mains Cathodic Protection	-	-	-	100%	50.25%	-	-	100%	50.25%	-
123	36701	Mains - Steel	-	-	-	100%	50.25%	-	-	100%	50.25%	-
124	37602	Mains - Plastic	-	-	-	100%	50.25%	-	-	100%	50.25%	-
125	37800	Meas & Reg. Sta. Equip - General	-	-	-	100%	50.25%	-	-	100%	50.25%	-
126	37900	Meas & Reg. Sta. Equip - City Gate	-	-	-	100%	50.25%	-	-	100%	50.25%	-
127	37905	Meas & Reg. Sta. Equipment T.b.	-	-	-	100%	50.25%	-	-	100%	50.25%	-
128	38000	Services	-	-	-	100%	50.25%	-	-	100%	50.25%	-
129	38100	Meters	-	-	-	100%	50.25%	-	-	100%	50.25%	-
130	38200	Meter Installaitons	-	-	-	100%	50.25%	-	-	100%	50.25%	-
131	38300	House Regulators	-	-	-	100%	50.25%	-	-	100%	50.25%	-
132	38400	House Reg. Installations	-	-	-	100%	50.25%	-	-	100%	50.25%	-
133	38500	Ind. Meas. & Reg. Sta. Equipment	-	-	-	100%	50.25%	-	-	100%	50.25%	-
134	38600	Other Prop. On Cust. Prem	-	-	-	100%	50.25%	-	-	100%	50.25%	-
135												
136		Total Distribution Plant	$ -	$ -	$ -			$ -	$ -			$ -

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137												
138		General Plant										
139	39001	39001-Structures - Frame	$ 97,363	-	$ 97,363	100.00%	50.25%	48,926	$ 94,959	100.00%	50.25%	$ 47,718
140	39004	39004-Air Conditioning Equipment	$ 8,251	-	8,251	100%	50.25%	4,146	$ 7,687	100%	50.25%	3,863
141	39009	39009-Improv. to Leased Premises	$ 38,834	-	38,834	100%	50.25%	19,515	$ 38,834	100%	50.25%	19,515
142	39100	39100-Office Furniture & Equipment	$ 41,397	-	41,397	100%	50.25%	20,803	$ 41,397	100%	50.25%	20,803
143	39101	Office Furniture And	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
144	39103	Office Machines	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
145	39200	39200-Trans Equip- Group	$ 14,714	-	14,714	100%	50.25%	7,394	$ 13,804	100%	50.25%	6,937
146	39300	Stores Equipment	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
147	39400	39400-Tools, Shop, & Garage Equip.	$ 131,938	-	131,938	100%	50.25%	66,300	$ 128,964	100%	50.25%	64,806
148	39600	39600-Power Operated Equipment	$ 7,060	-	7,060	100%	50.25%	3,548	$ 6,613	100%	50.25%	3,323
149	39700	39700-Communication Equipment	$ (9,040)	-	(9,040)	100%	50.25%	(4,543)	$ (9,574)	100%	50.25%	(4,811)
150	39701	Communication Equip.	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
151	39702	Communication Equip.	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
152	39800	39800-Miscellaneous Equipment	$ 674,250	-	674,250	100%	50.25%	338,820	$ 660,124	100%	50.25%	331,721
153	39900	39900-Other Tangible Property	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
154	39901	39901-Oth Tang Prop - Servers - H/W	$ (34,804)	-	(34,804)	100%	50.25%	(17,490)	$ (34,825)	100%	50.25%	(17,500)
155	39902	39902-Oth Tang Prop - Servers - S/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
156	39903	39903-Oth Tang Prop - Network - H/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
157	39906	39906-Oth Tang Prop - PC Hardware	$ 74,208	-	74,208	100%	50.25%	37,291	$ 74,208	100%	50.25%	37,291
158	39907	39907-Oth Tang Prop - PC Software	$ 19,230	-	19,230	100%	50.25%	9,663	$ 17,282	100%	50.25%	8,684
159	39908	39908-Oth Tang Prop - Appl Software	$ 828,509	-	828,509	100%	50.25%	416,337	$ 828,509	100%	50.25%	416,337
160		Retirement Work in Progress	$ 52,517			100%	50.25%	-	$ 52,517	100%	50.25%	26,391
161												
162		Total General Plant	$ 1,944,427	$ -	$ 1,891,910			$ 950,711	$ 1,920,501			$ 965,078
163												
164		Total Depr Reserves (Div 91)	$ 1,944,427	$ -	$ 1,891,910			$ 950,711	$ 1,920,501			$ 965,078

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165												
166	**Shared Services General Office (Division 002)**											
167												
168		General Plant										
169	39000	39000-Structures & Improvements	$ 470,346	-	$ 470,346	10.35%	50.25%	24,463	$ 451,141	10.35%	50.25%	$ 23,464
170	39005	39005-G-Structures & Improvements	$ 3,425,409	-	3,425,409	100.00%	1.55%	53,120	$ 3,233,791	100.00%	1.55%	50,148
171	39009	39009-Improv. to Leased Premises	$ 9,352,081	-	9,352,081	10.35%	50.25%	486,403	$ 9,190,906	10.35%	50.25%	478,020
172	39020	Struct & Improv AEAM	$ (0)	-	(0)	100.00%	6.44%	(0)	$ (0)	100.00%	6.44%	(0)
173	39029	Improv-Leased AEAM	$ (0)	-	(0)	100.00%	6.44%	(0)	$ (0)	100.00%	6.44%	(0)
174	39100	39100-Office Furniture & Equipment	$ 1,742,000	-	1,742,000	10.35%	50.25%	90,602	$ 2,682,949	10.35%	50.25%	139,541
175	39102	39102-Remittance Processing Equipment	$ 1	-	1	10.35%	50.25%	0	$ 1	10.35%	50.25%	0
176	39103	39103-Office Furn. - Copiers & Type	$ 0	-	0	10.35%	50.25%	0	$ 0	10.35%	50.25%	0
177	39104	39104-G-Office Furniture & Equip.	$ 34,219	-	34,219	100.00%	1.55%	531	$ 30,181	100.00%	1.55%	468
178	39120	Off Furn & Equip-AEAM	$ 91,745	-	91,745	100.00%	6.44%	5,906	$ 90,224	100.00%	6.44%	5,808
179	39200	39200-Transportation Equipment	$ 4,474	-	4,474	10.35%	50.25%	233	$ 4,309	10.35%	50.25%	224
180	39300	39300-Stores Equipment	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
181	39400	39400-Tools, Shop, & Garage Equip.	$ 32,088	-	32,088	10.35%	50.25%	1,669	$ 65,441	10.35%	50.25%	3,404
182	39420	Tools And Garage-AEAM	$ (16,427)	-	(16,427)	100.00%	6.44%	(1,057)	$ 1,264	100.00%	6.44%	81
183	39500	39500-Laboratory Equipment	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
184	39700	39700-Communication Equipment	$ 1,231,503	-	1,231,503	10.35%	50.25%	64,051	$ 1,214,409	10.35%	50.25%	63,162
185	39720	Commun Equip AEAM	$ 7,264	-	7,264	100.00%	6.44%	468	$ 4,279	100.00%	6.44%	275
186	39800	39800-Miscellaneous Equipment	$ 40,572	-	40,572	10.35%	50.25%	2,110	$ 39,726	10.35%	50.25%	2,066
187	39820	Misc Equip - AEAM	$ 4,891	-	4,891	100.00%	6.44%	315	$ 1,726	100.00%	6.44%	111
188	39900	39900-Other Tangible Equipm	$ 164,784	-	164,784	10.35%	50.25%	8,570	$ 164,534	10.35%	50.25%	8,557
189	39901	39901-Oth Tang Prop - Servers - H/W	$ 19,218,477	-	19,218,477	100.00%	50.25%	9,657,546	$ 18,178,041	100.00%	50.25%	9,134,713
190	39902	39902-Oth Tang Prop - Servers - S/W	$ 15,943,163	-	15,943,163	10.35%	50.25%	829,206	$ 15,625,201	10.35%	50.25%	812,669
191	39903	39903-Oth Tang Prop - Network - H/W	$ 2,251,878	-	2,251,878	10.35%	50.25%	117,121	$ 2,213,189	10.35%	50.25%	115,108
192	39904	39904-Oth Tang Prop - CPU	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
193	39905	39905-Oth Tang Prop - MF Hardware	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
194	39906	39906-Oth Tang Prop - PC Hardware	$ 945,142	-	945,142	10.35%	50.25%	49,157	$ 885,644	10.35%	50.25%	46,062
195	39907	39907-Oth Tang Prop - PC Software	$ 2,485,988	-	2,485,988	10.35%	50.25%	129,297	$ 1,132,177	10.35%	50.25%	58,885
196	39908	39908-Oth Tang Prop - Appl Software	$ 29,228,048	-	29,228,048	10.35%	50.25%	1,520,155	$ 28,650,211	10.35%	50.25%	1,490,102
197	39909	39909-Oth Tang Prop - Mainframe S/W	$ 42,122	-	42,122	10.35%	50.25%	2,191	$ 41,754	10.35%	50.25%	2,172
198	39921	Servers-Hardware-AEAM	$ 1,058,777	-	1,058,777	100.00%	6.44%	68,156	$ 1,014,856	100.00%	6.44%	65,328
199	39922	Servers-Software-AEAM	$ 393,201	-	393,201	100.00%	6.44%	25,311	$ 378,352	100.00%	6.44%	24,355
200	39923	Network Hardware-AEAM	$ 39,029	-	39,029	100.00%	6.44%	2,512	$ 38,463	100.00%	6.44%	2,476
201	39924	39924-Oth Tang Prop - Gen.	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
202	39926	Pc Hardware-AEAM	$ 488,023	-	488,023	100.00%	6.44%	31,415	$ 190,538	100.00%	6.44%	12,265
203	39928	Application SW-AEAM	$ 11,235,896	-	11,235,896	100.00%	6.44%	723,277	$ 11,053,952	100.00%	6.44%	711,565
204	39931	ALGN-Servers-Hardware	$ 37,348	-	37,348	100.00%	0.00%	-	$ 26,226	100.00%	0.00%	-
205	39932	ALGN-Servers-Software	$ 18,755	-	18,755	100.00%	0.00%	-	$ 16,677	100.00%	0.00%	-
206	39938	ALGN-Application SW	$ 2,305,884	-	2,305,884	100.00%	0.00%	-	$ 2,056,104	100.00%	0.00%	
207		Retirement Work in Progress	$ -	-	-	10.35%	50.25%	-	$ -	100.00%	50.25%	-
208												
209		Total Depr Reserves (Div 2)	$ 102,276,681	$ -	$ 102,276,681			$ 13,892,726	$ 98,676,264			$ 13,251,031
210												

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Line No.	Acct. No.	Account / SubAccount Titles	**Ending Balance**	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month Average**	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
211		**Shared Services Customer Support (Division 012)**										
212												
213		General Plant										
214	38900	38900-Land	$ -	$ -	$ -	10.93%	51.88%	$ -	$ -	10.93%	51.88%	$ -
215	38910	38910-CKV-Land & Land Rights	$ -	-	-	100.00%	2.33%	-	$ -	100.00%	2.33%	-
216	39000	39000-Structures & Improvements	$ 1,609,709	-	1,609,709	10.93%	51.88%	91,285	$ 1,416,353	10.93%	51.88%	80,320
217	39009	39009-Improv. to Leased Premises	$ 1,591,254	-	1,591,254	10.93%	51.88%	90,239	$ 1,543,296	10.93%	51.88%	87,519
218	39010	39010-CKV-Structures & Improvements	$ 2,562,060	-	2,562,060	100.00%	2.33%	59,758	$ 2,356,590	100.00%	2.33%	54,966
219	39100	39100-Office Furniture & Equipment	$ 776,042	-	776,042	10.93%	51.88%	44,009	$ 729,487	10.93%	51.88%	41,369
220	39101	Office Furniture And	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
221	39102	Remittance Processing	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
222	39103	39103-Office Furn. - Copiers & Type	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
223	39110	CKV-Office Furn & Eq	$ 35,809	-	35,809	100.00%	2.33%	835	$ 26,220	100.00%	2.33%	612
224	39210	CKV-Transportation Eq	$ 93,581	-	93,581	100.00%	2.33%	2,183	$ 89,589	100.00%	2.33%	2,090
225	39410	CKV-Tools Shop Garage	$ 100,279	-	100,279	100.00%	2.33%	2,339	$ 85,529	100.00%	2.33%	1,995
226	39510	CKV-Laboratory Equip	$ 15,154	-	15,154	100.00%	2.33%	353	$ 14,216	100.00%	2.33%	332
227	39700	39700-Communication Equipment	$ 981,313	-	981,313	10.93%	51.88%	55,649	$ 925,778	10.93%	51.88%	52,500
228	39710	39710-CKV-Communication Equipment	$ 144,728	-	144,728	100.00%	2.33%	3,376	$ 136,222	100.00%	2.33%	3,177
229	39800	39800-Miscellaneous Equipment	$ 11,836	-	11,836	10.93%	51.88%	671	$ 10,253	10.93%	51.88%	581
230	39810	CKV-Misc Equipment	$ 137,839	-	137,839	100.00%	2.33%	3,215	$ 126,381	100.00%	2.33%	2,948
231	39900	39900-Other Tangible Property	$ 416,243	-	416,243	10.93%	51.88%	23,605	$ 374,711	10.93%	51.88%	21,249
232	39901	39901-Oth Tang Prop - Servers - H/W	$ 4,361,559	-	4,361,559	10.93%	51.88%	247,340	$ 3,930,580	10.93%	51.88%	222,899
233	39902	39902-Oth Tang Prop - Servers - S/W	$ 1,061,157	-	1,061,157	10.93%	51.88%	60,177	$ 977,604	10.93%	51.88%	55,439
234	39903	39903-Oth Tang Prop - Network - H/W	$ 322,530	-	322,530	10.93%	51.88%	18,290	$ 299,517	10.93%	51.88%	16,985
235	39906	39906-Oth Tang Prop - PC Hardware	$ 488,220	-	488,220	10.93%	51.88%	27,686	$ 444,327	10.93%	51.88%	25,197
236	39907	39907-Oth Tang Prop - PC Software	$ 124,643	-	124,643	10.93%	51.88%	7,068	$ 118,337	10.93%	51.88%	6,711
237	39908	39908-Oth Tang Prop - Appl Software	$ 25,976,082	-	25,976,082	10.93%	51.88%	1,473,079	$ 23,087,626	10.93%	51.88%	1,309,278
238	39910	39910-CKV-Other Tangible Property	$ 109,374	-	109,374	100.00%	2.33%	2,551	$ 100,449	100.00%	2.33%	2,343
239	39916	39916-CKV-Oth Tang Prop-PC Hardware	$ 226,856	-	226,856	100.00%	2.33%	5,291	$ 214,062	100.00%	2.33%	4,993
240	39917	39917-CKV-Oth Tang Prop-PC Software	$ 69,710	-	69,710	100.00%	2.33%	1,626	$ 66,209	100.00%	2.33%	1,544
241	39918	CKV-Oth Tang Prop-App	$ 9,699	-	9,699	100.00%	2.33%	226	$ 9,029	100.00%	2.33%	211
242	39924	Oth Tang Prop - Gen.	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
243		RWIP	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
244												
245		Total Depr Reserves (Div 12)	$ 41,225,676	$ -	$ 41,225,676			$ 2,220,853	$ 37,082,363			$ 1,995,257
246												
247		Total Accumulated Depreciation & Amortization (Div 009, 091, 002, 012)	$ 319,572,986	$ -	$ 319,520,469			$ 191,190,491	$ 306,758,496			$ 185,290,734

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Line No.	Acct. No.	Account / SubAccount Titles	**Ending Balance**	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month Average**	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
		Kentucky Direct (Division 009)										
1		Intangible Plant										
2	30100	Organization	$ 8,330	$ -	$ 8,330	100%	100%	$ 8,330	$ 8,330	100%	100%	$ 8,330
3	30200	Franchises & Consents	$ 119,853	-	119,853	100%	100%	119,853	$ 119,853	100%	100%	119,853
4												
5		Total Intangible Plant Reserves	$ 128,182	$ -	$ 128,182			$ 128,182	$ 128,182			$ 128,182
6												
7		Natural Gas Production Plant										
8	32540	Rights of Ways	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
9	33202	Tributary Lines	$ -	-	-	100%	100%	-	$ -	100%	100%	-
10	33400	Field Meas. & Reg. Sta. Equip	$ -	-	-	100%	100%	-	$ -	100%	100%	-
11												
12		Total Natural Gas Production Plant Reserv	$ -	$ -	$ -			$ -	$ -			$ -
13												
14		Storage Plant										
15	35010	Land	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
16	35020	Rights of Way	$ 4,442	-	4,442	100%	100%	4,442	$ 4,436	100%	100%	4,436
17	35100	Structures and Improvements	$ 6,140	-	6,140	100%	100%	6,140	$ 5,990	100%	100%	5,990
18	35102	Compression Station Equipment	$ 112,787	-	112,787	100%	100%	112,787	$ 111,821	100%	100%	111,821
19	35103	Meas. & Reg. Sta. Structues	$ 20,379	-	20,379	100%	100%	20,379	$ 20,273	100%	100%	20,273
20	35104	Other Structures	$ 99,257	-	99,257	100%	100%	99,257	$ 98,364	100%	100%	98,364
21	35200	Wells \ Rights of Way	$ 1,239,192	-	1,239,192	100%	100%	1,239,192	$ 1,167,490	100%	100%	1,167,490
22	35201	Well Construction	$ 1,406,591	-	1,406,591	100%	100%	1,406,591	$ 1,393,756	100%	100%	1,393,756
23	35202	Well Equipment	$ 458,146	-	458,146	100%	100%	458,146	$ 458,146	100%	100%	458,146
24	35203	Cushion Gas	$ 746,900	-	746,900	100%	100%	746,900	$ 731,646	100%	100%	731,646
25	35210	Leaseholds	$ 167,785	-	167,785	100%	100%	167,785	$ 167,473	100%	100%	167,473
26	35211	Storage Rights	$ 43,715	-	43,715	100%	100%	43,715	$ 43,475	100%	100%	43,475
27	35301	Field Lines	$ 140,943	-	140,943	100%	100%	140,943	$ 140,220	100%	100%	140,220
28	35302	Tributary Lines	$ 196,235	-	196,235	100%	100%	196,235	$ 195,387	100%	100%	195,387
29	35400	Compressor Station Equipment	$ 490,003	-	490,003	100%	100%	490,003	$ 481,692	100%	100%	481,692
30	35500	Meas & Reg. Equipment	$ 185,890	-	185,890	100%	100%	185,890	$ 188,424	100%	100%	188,424
31	35600	Purification Equipment	$ 187,692	-	187,692	100%	100%	187,692	$ 183,442	100%	100%	183,442
32												
33		Total Storage Plant Reserves	$ 5,506,098	$ -	$ 5,506,098			$ 5,506,098	$ 5,392,034			$ 5,392,034

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Line No.	Acct. No.	Account / SubAccount Titles	**Ending Balance**	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month Average**	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
34												
35		Transmission Plant										
36	36510	Land	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
37	36520	Rights of Way	$ 423,540	-	423,540	100%	100%	423,540	$ 417,769	100%	100%	417,769
38	36602	Structures & Improvements	$ 16,534	-	16,534	100%	100%	16,534	$ 16,098	100%	100%	16,098
39	36603	Other Structues	$ 52,689	-	52,689	100%	100%	52,689	$ 52,147	100%	100%	52,147
40	36700	Mains Cathodic Protection	$ 116,852	-	116,852	100%	100%	116,852	$ 112,879	100%	100%	112,879
41	36701	Mains - Steel	$ 18,918,325	-	18,918,325	100%	100%	18,918,325	$ 18,657,095	100%	100%	18,657,095
42	36900	Meas. & Reg. Equipment	$ 347,837	-	347,837	100%	100%	347,837	$ 340,010	100%	100%	340,010
43	36901	Meas. & Reg. Equipment	$ 1,756,775	-	1,756,775	100%	100%	1,756,775	$ 1,732,491	100%	100%	1,732,491
44												
45		Total Production Plant - LPG Reserves	$ 21,632,552	$ -	$ 21,632,552			$ 21,632,552	$ 21,328,489			$ 21,328,489
46												
47		Distribution Plant										
48	37400	Land & Land Rights	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
49	37401	Land	$ -	-	-	100%	100%	-	$ -	100%	100%	-
50	37402	Land Rights	$ 216,548	-	216,548	100%	100%	216,548	$ 192,103	100%	100%	192,103
51	37403	Land Other	$ -	-	-	100%	100%	-	$ -	100%	100%	-
52	37500	Structures & Improvements	$ 110,686	-	110,686	100%	100%	110,686	$ 107,224	100%	100%	107,224
53	37501	Structures & Improvements T.B.	$ 70,556	-	70,556	100%	100%	70,556	$ 69,527	100%	100%	69,527
54	37502	Land Rights	$ 34,985	-	34,985	100%	100%	34,985	$ 34,509	100%	100%	34,509
55	37503	Improvements	$ 1,884	-	1,884	100%	100%	1,884	$ 1,843	100%	100%	1,843
56	37600	Mains Cathodic Protection	$ 12,924,122	-	12,924,122	100%	100%	12,924,122	$ 12,595,265	100%	100%	12,595,265
57	37601	Mains - Steel	$ 29,863,767	-	29,863,767	100%	100%	29,863,767	$ 29,171,777	100%	100%	29,171,777
58	37602	Mains - Plastic	$ 17,845,677	-	17,845,677	100%	100%	17,845,677	$ 16,572,437	100%	100%	16,572,437
59	37800	Meas & Reg. Sta. Equip - General	$ 2,755,116	-	2,755,116	100%	100%	2,755,116	$ 2,554,130	100%	100%	2,554,130
60	37900	Meas & Reg. Sta. Equip - City Gate	$ 1,013,389	-	1,013,389	100%	100%	1,013,389	$ 939,545	100%	100%	939,545
61	37905	Meas & Reg. Sta. Equipment T.b.	$ 1,059,557	-	1,059,557	100%	100%	1,059,557	$ 1,018,245	100%	100%	1,018,245
62	38000	Services	$ 38,681,263	-	38,681,263	100%	100%	38,681,263	$ 37,374,099	100%	100%	37,374,099
63	38100	Meters	$ 20,656,076	-	20,656,076	100%	100%	20,656,076	$ 19,024,488	100%	100%	19,024,488
64	38200	Meter Installaitons	$ 25,825,005	-	25,825,005	100%	100%	25,825,005	$ 24,993,491	100%	100%	24,993,491
65	38300	House Regulators	$ 4,158,944	-	4,158,944	100%	100%	4,158,944	$ 3,972,596	100%	100%	3,972,596
66	38400	House Reg. Installations	$ 90,956	-	90,956	100%	100%	90,956	$ 87,939	100%	100%	87,939
67	38500	Ind. Meas. & Reg. Sta. Equipment	$ 2,904,067	-	2,904,067	100%	100%	2,904,067	$ 2,832,946	100%	100%	2,832,946
68												
69		Total Distribution Plant Reserves	$ 158,212,600	$ -	$ 158,212,600			$ 158,212,600	$ 151,542,162			$ 151,542,162

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Line No.	Acct. No.	Account / SubAccount Titles	**Ending Balance**	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month Average**	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
70												
71		General Plant										
72	38900	38900-Land & Land Rights	$ -	$ -	$ -	100%	100%	$ -	$ -	100%	100%	$ -
73	39000	39000-Structures & Improvements	$ 1,123,624	-	1,123,624	100%	100%	1,123,624	$ 989,222	100%	100%	989,222
74	39002	39002-Structures - Brick	$ 104,796	-	104,796	100%	100%	104,796	$ 101,541	100%	100%	101,541
75	39003	39003-Improvements	$ 281,312	-	281,312	100%	100%	281,312	$ 267,979	100%	100%	267,979
76	39004	39004-Air Conditioning Equipment	$ 4,684	-	4,684	100%	100%	4,684	$ 4,441	100%	100%	4,441
77	39009	39009-Improv. to Leased Premises	$ 1,248,110	-	1,248,110	100%	100%	1,248,110	$ 1,225,690	100%	100%	1,225,690
78	39100	39100-Office Furniture & Equipment	$ 1,048,772	-	1,048,772	100%	100%	1,048,772	$ 988,921	100%	100%	988,921
79	39103	Office Machines	$ -	-	-	100%	100%	-	$ -	100%	100%	-
80	39200	39200-Transportation Equipment	$ 107,529	-	107,529	100%	100%	107,529	$ 90,800	100%	100%	90,800
81	39202	39202-WKG Trailers	$ (2,550)	-	(2,550)	100%	100%	(2,550)	$ (2,550)	100%	100%	(2,550)
82	39400	39400-Tools, Shop, & Garage Equip.	$ 1,354,206	-	1,354,206	100%	100%	1,354,206	$ 1,181,289	100%	100%	1,181,289
83	39603	39603-Ditchers	$ 39,761	-	39,761	100%	100%	39,761	$ 39,019	100%	100%	39,019
84	39604	39604-Backhoes	$ 62,887	-	62,887	100%	100%	62,887	$ 61,712	100%	100%	61,712
85	39605	39605-Welders	$ 19,456	-	19,456	100%	100%	19,456	$ 18,123	100%	100%	18,123
86	39700	39700-Communication Equipment	$ 213,192	-	213,192	100%	100%	213,192	$ 201,221	100%	100%	201,221
87	39701	Communication Equip.	$ -	-	-	100%	100%	-	$ -	100%	100%	-
88	39702	Communication Equip.	$ -	-	-	100%	100%	-	$ -	100%	100%	-
89	39705	39705-Comm. Equip. - Telemetering	$ -	-	-	100%	100%	-	$ -	100%	100%	-
90	39800	39800-Miscellaneous Equipment	$ 1,788,139	-	1,788,139	100%	100%	1,788,139	$ 1,693,602	100%	100%	1,693,602
91	39901	Servers Hardware	$ 5,404	-	5,404	100%	100%	5,404	$ 4,685	100%	100%	4,685
92	39902	Servers Software	$ -	-	-	100%	100%	-	$ -	100%	100%	-
93	39903	39903-Oth Tang Prop - Network - H/W	$ 55,325	-	55,325	100%	100%	55,325	$ 48,595	100%	100%	48,595
94	39906	39906-Oth Tang Prop - PC Hardware	$ 1,253,387	-	1,253,387	100%	100%	1,253,387	$ 1,069,984	100%	100%	1,069,984
95	39907	39907-Oth Tang Prop - PC Software	$ -	-	-	100%	100%	-	$ -	100%	100%	-
96	39908	39908-Oth Tang Prop - Appl Software	$ 123,660	-	123,660	100%	100%	123,660	$ 123,343	100%	100%	123,343
97		Retirement Work in Progress	$ (3,312,255)	-	(3,312,255)	100%	100%	(3,312,255)	$ (3,312,255)	100%	100%	(3,312,255)
		Retirement Work in Progress Recon	$ -	-	-	100%	100%	-	$ -	100%	100%	-
98		AR 15 general plant amortization	$ -	-	-	100%	100%	-	$ -	100%	100%	-
99												
100		Total General Plant Reserves	$ 5,519,439	$ -	$ 5,519,439			$ 5,519,439	$ 4,795,362			$ 4,795,362
101												
102		Total Depr Reserves (Div 9)	$ 190,998,870	$ -	$ 190,998,870			$ 190,998,870	$ 183,186,229			$ 183,186,229
103												
104												

Atmos Energy Corporation, Kentucky/Mid-States Division
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Jurisdictional Accumulated Depreciation & Amortization
as of March 31, 2019

Data:______Base Period__X___Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

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Line No.	Acct. No.	Account / SubAccount Titles	Ending Balance	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	13 Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
105												
106	**Kentucky-Mid-States General Office (Division 091)**											
107												
108		Intangible Plant										
109	30100	Organization	$ -	$ -	$ -	100%	50.25%	$ -	$ -	100%	50.25%	$ -
110	30300	Misc Intangible Plant	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
111												
112		Total Intangible Plant	$ -	$ -	$ -			$ -	$ -			$ -
113												
114		Distribution Plant										
115	37400	Land & Land Rights	$ -	$ -	$ -	100%	50.25%	$ -	$ -	100%	50.25%	$ -
116	35010	Land	-	-	-	100%	50.25%	-	-	100%	50.25%	-
117	37402	Land Rights	-	-	-	100%	50.25%	-	-	100%	50.25%	-
118	37403	Land Other	-	-	-	100%	50.25%	-	-	100%	50.25%	-
119	36602	Structures & Improvements	-	-	-	100%	50.25%	-	-	100%	50.25%	-
120	37501	Structures & Improvements T.B.	-	-	-	100%	50.25%	-	-	100%	50.25%	-
121	37402	Land Rights	-	-	-	100%	50.25%	-	-	100%	50.25%	-
122	37503	Improvements	-	-	-	100%	50.25%	-	-	100%	50.25%	-
123	36700	Mains Cathodic Protection	-	-	-	100%	50.25%	-	-	100%	50.25%	-
124	36701	Mains - Steel	-	-	-	100%	50.25%	-	-	100%	50.25%	-
125	37602	Mains - Plastic	-	-	-	100%	50.25%	-	-	100%	50.25%	-
126	37800	Meas & Reg. Sta. Equip - General	-	-	-	100%	50.25%	-	-	100%	50.25%	-
127	37900	Meas & Reg. Sta. Equip - City Gate	-	-	-	100%	50.25%	-	-	100%	50.25%	-
128	37905	Meas & Reg. Sta. Equipment T.b.	-	-	-	100%	50.25%	-	-	100%	50.25%	-
129	38000	Services	-	-	-	100%	50.25%	-	-	100%	50.25%	-
130	38100	Meters	-	-	-	100%	50.25%	-	-	100%	50.25%	-
131	38200	Meter Installaitons	-	-	-	100%	50.25%	-	-	100%	50.25%	-
132	38300	House Regulators	-	-	-	100%	50.25%	-	-	100%	50.25%	-
133	38400	House Reg. Installations	-	-	-	100%	50.25%	-	-	100%	50.25%	-
134	38500	Ind. Meas. & Reg. Sta. Equipment	-	-	-	100%	50.25%	-	-	100%	50.25%	-
135	38600	Other Prop. On Cust. Prem	-	-	-	100%	50.25%	-	-	100%	50.25%	-
136												
137		Total Distribution Plant	$ -	$ -	$ -			$ -	$ -			$ -

Atmos Energy Corporation, Kentucky/Mid-States Division
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Line No.	Acct. No.	Account / SubAccount Titles	**Ending Balance**	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month Average**	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
138												
139		General Plant										
140	39001	39001-Structures - Frame	$ 103,370	$ -	$ 103,370	100.00%	50.25%	$ 51,945	$ 100,967	100.00%	50.25%	$ 50,737
141	39004	39004-Air Conditioning Equipment	$ 9,661	-	9,661	100%	50.25%	4,855	$ 9,097	100%	50.25%	4,571
142	39009	39009-Improv. to Leased Premises	$ 38,834	-	38,834	100%	50.25%	19,515	$ 38,834	100%	50.25%	19,515
143	39100	39100-Office Furniture & Equipment	$ 41,397	-	41,397	100%	50.25%	20,803	$ 41,397	100%	50.25%	20,803
144	39101	Office Furniture And	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
145	39103	Office Machines	$ -			100%	50.25%		$ -	100%	50.25%	
146	39200	39200-Trans Equip- Group	$ 16,989			100%	50.25%		$ 16,079	100%	50.25%	
147	39300	Stores Equipment	$ -			100%	50.25%		$ -	100%	50.25%	
148	39400	39400-Tools, Shop, & Garage Equip.	$ 139,631			100%	50.25%		$ 136,528	100%	50.25%	
149	39600	39600-Power Operated Equipment	$ 8,179			100%	50.25%		$ 7,731	100%	50.25%	
150	39700	39700-Communication Equipment	$ (7,004)	-	(7,004)	100%	50.25%	(3,519)	$ (7,885)	100%	50.25%	(3,962)
151	39701	Communication Equip.	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
152	39702	Communication Equip.	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
153	39800	39800-Miscellaneous Equipment	$ 709,564	-	709,564	100%	50.25%	356,566	$ 695,438	100%	50.25%	349,467
154	39900	39900-Other Tangible Property	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
155	39901	39901-Oth Tang Prop - Servers - H/W	$ (34,804)	-	(34,804)	100%	50.25%	(17,490)	$ (34,804)	100%	50.25%	(17,490)
156	39902	39902-Oth Tang Prop - Servers - S/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
157	39903	39903-Oth Tang Prop - Network - H/W	$ -	-	-	100%	50.25%	-	$ -	100%	50.25%	-
158	39906	39906-Oth Tang Prop - PC Hardware	$ 74,208	-	74,208	100%	50.25%	37,291	$ 74,208	100%	50.25%	37,291
159	39907	39907-Oth Tang Prop - PC Software	$ 24,099	-	24,099	100%	50.25%	12,110	$ 22,152	100%	50.25%	11,131
160	39908	39908-Oth Tang Prop - Appl Software	$ 828,509	-	828,509	100%	50.25%	416,337	$ 828,509	100%	50.25%	416,337
161		Retirement Work in Progress	$ 52,517			100%	50.25%	-	$ 52,517	100%	50.25%	26,391
162												
163		Total General Plant	$ 2,005,151	$ -	$ 1,787,835			$ 898,411	$ 1,980,769			$ 914,791
164												
165		Total Depr Reserves (Div 91)	$ 2,005,151	$ -	$ 1,787,835			$ 898,411	$ 1,980,769			$ 914,791

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Jurisdictional Accumulated Depreciation & Amortization
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Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

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Line No.	Acct. No.	Account / SubAccount Titles	**Ending Balance**	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month Average**	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
166												
167	**Shared Services General Office (Division 002)**											
168												
169		General Plant										
170	39000	39000-Structures & Improvements	$ 523,453	$ -	$ 523,453	10.35%	50.25%	$ 27,225	$ 502,210	10.35%	50.25%	$ 26,120
171	39005	39005-G-Structures & Improvements	$ 3,769,039	-	3,769,039	100.00%	1.55%	58,448	$ 3,631,587	100.00%	1.55%	56,317
172	39009	39009-Improv. to Leased Premises	$ 9,748,264	-	9,748,264	10.35%	50.25%	507,009	$ 9,588,019	10.35%	50.25%	498,674
173	39020	Struct & Improv AEAM	$ (0)	-	(0)	100.00%	6.44%	(0)	$ (0)	100.00%	6.44%	(0)
174	39029	Improv-Leased AEAM	$ (0)	-	(0)	100.00%	6.44%	(0)	$ (0)	100.00%	6.44%	(0)
175	39100	39100-Office Furniture & Equipment	$ 1,995,593			10.35%	50.25%		$ 1,893,904	10.35%	50.25%	
176	39102	39102-Remittance Processing Equipment	$ 1			10.35%	50.25%		$ 1	10.35%	50.25%	
177	39103	39103-Office Furn. - Copiers & Type	$ 0			10.35%	50.25%		$ 0	10.35%	50.25%	
178	39104	39104-G-Office Furniture & Equip.	$ 47,254			100.00%	1.55%		$ 42,040	100.00%	1.55%	
179	39120	Off Furn & Equip-AEAM	$ 92,098			100.00%	6.44%		$ 91,957	100.00%	6.44%	
180	39200	39200-Transportation Equipment	$ 4,474			10.35%	50.25%		$ 4,474	10.35%	50.25%	
181	39300	39300-Stores Equipment	$ -			10.35%	50.25%		$ -	10.35%	50.25%	
182	39400	39400-Tools, Shop, & Garage Equip.	$ 70,649			10.35%	50.25%		$ 51,880	10.35%	50.25%	
183	39420	Tools And Garage-AEAM	$ (16,427)			100.00%	6.44%		$ (16,427)	100.00%	6.44%	
184	39500	39500-Laboratory Equipment	$ -			10.35%	50.25%		$ -	10.35%	50.25%	
185	39700	39700-Communication Equipment	$ 1,232,148			10.35%	50.25%		$ 1,231,890	10.35%	50.25%	
186	39720	Commun Equip AEAM	$ 9,260			100.00%	6.44%		$ 9,260	100.00%	6.44%	
187	39800	39800-Miscellaneous Equipment	$ 41,061			10.35%	50.25%		$ 40,865	10.35%	50.25%	
188	39820	Misc Equip - AEAM	$ 7,752			100.00%	6.44%		$ 7,697	100.00%	6.44%	
189	39900	39900-Other Tangible Equipm	$ 164,784	-	164,784	10.35%	50.25%	8,570	$ 164,784	10.35%	50.25%	8,570
190	39901	39901-Oth Tang Prop - Servers - H/W	$ 21,470,637	-	21,470,637	10.35%	50.25%	1,116,691	$ 20,569,773	10.35%	50.25%	1,069,837
191	39902	39902-Oth Tang Prop - Servers - S/W	$ 16,339,315	-	16,339,315	10.35%	50.25%	849,810	$ 16,180,854	10.35%	50.25%	841,569
192	39903	39903-Oth Tang Prop - Network - H/W	$ 2,251,878	-	2,251,878	10.35%	50.25%	117,121	$ 2,251,878	10.35%	50.25%	117,121
193	39904	39904-Oth Tang Prop - CPU	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
194	39905	39905-Oth Tang Prop - MF Hardware	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
195	39906	39906-Oth Tang Prop - PC Hardware	$ 1,065,059	-	1,065,059	10.35%	50.25%	55,394	$ 1,017,108	10.35%	50.25%	52,900
196	39907	39907-Oth Tang Prop - PC Software	$ 2,485,988	-	2,485,988	10.35%	50.25%	129,297	$ 2,485,988	10.35%	50.25%	129,297
197	39908	39908-Oth Tang Prop - Appl Software	$ 29,232,700	-	29,232,700	10.35%	50.25%	1,520,397	$ 29,230,839	10.35%	50.25%	1,520,301
198	39909	39909-Oth Tang Prop - Mainframe S/W	$ 42,122	-	42,122	10.35%	50.25%	2,191	$ 42,122	10.35%	50.25%	2,191
199	39921	Servers-Hardware-AEAM	$ 1,142,766	-	1,142,766	100.00%	6.44%	73,562	$ 1,109,170	100.00%	6.44%	71,400
200	39922	Servers-Software-AEAM	$ 405,152	-	405,152	100.00%	6.44%	26,080	$ 400,372	100.00%	6.44%	25,773
201	39923	Network Hardware-AEAM	$ 39,029	-	39,029	100.00%	6.44%	2,512	$ 39,029	100.00%	6.44%	2,512
202	39924	39924-Oth Tang Prop - Gen.	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
203	39926	Pc Hardware-AEAM	$ 488,023	-	488,023	100.00%	6.44%	31,415	$ 488,023	100.00%	6.44%	31,415
204	39928	Application SW-AEAM	$ 11,269,680	-	11,269,680	100.00%	6.44%	725,452	$ 11,256,107	100.00%	6.44%	724,578
205	39931	ALGN-Servers-Hardware	$ 66,078	-	66,078	100.00%	0.00%	-	$ 54,531	100.00%	0.00%	-
206	39932	ALGN-Servers-Software	$ 18,755	-	18,755	100.00%	0.00%	-	$ 18,755	100.00%	0.00%	-
207	39938	ALGN-Application SW	$ 2,305,884	-	2,305,884	100.00%	0.00%	-	$ 2,305,884	100.00%	0.00%	-
208		Retirement Work in Progress	$ -	-	-	10.35%	50.25%	-	$ -	10.35%	50.25%	-
209												
210		Total Depr Reserves (Div 2)	$ 106,312,469	$ -	$ 102,828,605			$ 5,251,175	$ 104,694,574			$ 5,178,574

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Workpaper Reference No(s).

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Line No.	Acct. No.	Account / SubAccount Titles	**Ending Balance**	Adjustments	Adjusted Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	**13 Month Average**	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
211												
212		**Shared Services Customer Support (Division 012)**										
213												
214		General Plant										
215	38900	38900-Land	$ -	$ -	$ -	10.93%	51.88%	$ -	$ -	10.93%	51.88%	$ -
216	38910	38910-CKV-Land & Land Rights	$ -	-	-	100.00%	2.33%	-	$ -	100.00%	2.33%	-
217	39000	39000-Structures & Improvements	$ 2,084,561	-	2,084,561	10.93%	51.88%	118,214	$ 1,894,620	10.93%	51.88%	107,442
218	39009	39009-Improv. to Leased Premises	$ 1,705,842	-	1,705,842	10.93%	51.88%	96,737	$ 1,660,007	10.93%	51.88%	94,137
219	39010	39010-CKV-Structures & Improvements	$ 3,318,656	-	3,318,656	100.00%	2.33%	77,405	$ 2,982,735	100.00%	2.33%	69,570
220	39100	39100-Office Furniture & Equipment	$ 896,442	-	896,442	10.93%	51.88%	50,836	$ 847,930	10.93%	51.88%	48,085
221	39101	Office Furniture And	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
222	39102	Remittance Processing	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
223	39103	39103-Office Furn. - Copiers & Type	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
224	39110	CKV-Office Furn & Eq	$ 127,815	-	127,815	100.00%	2.33%	2,981	$ 82,372	100.00%	2.33%	1,921
225	39210	CKV-Transportation Eq	$ 96,927	-	96,927	100.00%	2.33%	2,261	$ 96,773	100.00%	2.33%	2,257
226	39410	CKV-Tools Shop Garage	$ 136,665	-	136,665	100.00%	2.33%	3,188	$ 122,111	100.00%	2.33%	2,848
227	39510	CKV-Laboratory Equip	$ 18,123	-	18,123	100.00%	2.33%	423	$ 16,936	100.00%	2.33%	395
228	39700	39700-Communication Equipment	$ 1,121,209	-	1,121,209	10.93%	51.88%	63,583	$ 1,065,251	10.93%	51.88%	60,409
229	39710	39710-CKV-Communication Equipment	$ 166,250	-	166,250	100.00%	2.33%	3,878	$ 157,641	100.00%	2.33%	3,677
230	39800	39800-Miscellaneous Equipment	$ 16,465	-	16,465	10.93%	51.88%	934	$ 14,613	10.93%	51.88%	829
231	39810	CKV-Misc Equipment	$ 171,516	-	171,516	100.00%	2.33%	4,000	$ 158,045	100.00%	2.33%	3,686
232	39900	39900-Other Tangible Property	$ 518,954	-	518,954	10.93%	51.88%	29,429	$ 477,870	10.93%	51.88%	27,100
233	39901	39901-Oth Tang Prop - Servers - H/W	$ 5,465,022	-	5,465,022	10.93%	51.88%	309,916	$ 5,023,620	10.93%	51.88%	284,885
234	39902	39902-Oth Tang Prop - Servers - S/W	$ 1,272,256	-	1,272,256	10.93%	51.88%	72,148	$ 1,187,816	10.93%	51.88%	67,360
235	39903	39903-Oth Tang Prop - Network - H/W	$ 377,508	-	377,508	10.93%	51.88%	21,408	$ 355,517	10.93%	51.88%	20,161
236	39906	39906-Oth Tang Prop - PC Hardware	$ 608,919	-	608,919	10.93%	51.88%	34,531	$ 559,761	10.93%	51.88%	31,744
237	39907	39907-Oth Tang Prop - PC Software	$ 140,410	-	140,410	10.93%	51.88%	7,962	$ 134,103	10.93%	51.88%	7,605
238	39908	39908-Oth Tang Prop - Appl Software	$ 33,301,290	-	33,301,290	10.93%	51.88%	1,888,485	$ 30,357,683	10.93%	51.88%	1,721,556
239	39910	39910-CKV-Other Tangible Property	$ 149,901	-	149,901	100.00%	2.33%	3,496	$ 131,374	100.00%	2.33%	3,064
240	39916	39916-CKV-Oth Tang Prop-PC Hardware	$ 264,414	-	264,414	100.00%	2.33%	6,167	$ 248,725	100.00%	2.33%	5,801
241	39917	39917-CKV-Oth Tang Prop-PC Software	$ 79,730	-	79,730	100.00%	2.33%	1,860	$ 75,562	100.00%	2.33%	1,762
242	39918	CKV-Oth Tang Prop-App	$ 11,375	-	11,375	100.00%	2.33%	265	$ 10,705	100.00%	2.33%	250
243	39924	Oth Tang Prop - Gen.	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
244		Retirement Work in Progress	$ -	-	-	10.93%	51.88%	-	$ -	10.93%	51.88%	-
245												
246		Total Depr Reserves (Div 12)	$ 52,050,249	$ -	$ 52,050,249			$ 2,800,108	$ 47,661,769			$ 2,566,545
247												
248		Total Accumulated Depreciation & Amortization (Div 009, 091, 002, 012)	$ 351,366,739	$ -	$ 347,665,559			$ 199,948,564	$ 337,523,341			$ 191,846,139

Atmos Energy Corporation, Kentucky/Mid-States Division
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Depreciation Expense
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:______Base Period__X___Forecasted Period | FR 16(8)(b)3.1
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Workpaper Reference No(s). | Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	12 Months Ending 3/31/2019	O&M Expense Factor	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
		Kentucky Direct (Division 009)					
1		Intangible Plant					
2	30100	Organization	$ -	100.00%	100%	100%	$ -
3	30200	Franchises & Consents	$ -	100.00%	100%	100%	-
4							
5		Total Intangible Plant Amort.	$ -				$ -
6							
7		Natural Gas Production Plant					
8	32540	Rights of Ways	$ -	100.00%	100%	100%	-
9	33202	Tributary Lines	$ -	100.00%	100%	100%	-
10	33400	Field Meas. & Reg. Sta. Equip	$ -	100.00%	100%	100%	-
11							
12		Total Natural Gas Production Plant Depr	$ -				$ -
13							
14		Storage Plant					
15	35010	Land	$ -	100.00%	100%	100%	$ -
16	35020	Rights of Way	$ 12	100.00%	100%	100%	12
17	35100	Structures and Improvements	$ 299	100.00%	100%	100%	299
18	35102	Compression Station Equipment	$ 1,931	100.00%	100%	100%	1,931
19	35103	Meas. & Reg. Sta. Structues	$ 213	100.00%	100%	100%	213
20	35104	Other Structures	$ 1,787	100.00%	100%	100%	1,787
21	35200	Wells \ Rights of Way	$ 143,405	100.00%	100%	100%	143,405
22	35201	Well Construction	$ 25,670	100.00%	100%	100%	25,670
23	35202	Well Equipment	$ -	100.00%	100%	100%	-
24	35203	Cushion Gas	$ 30,507	100.00%	100%	100%	30,507
25	35210	Leaseholds	$ 625	100.00%	100%	100%	625
26	35211	Storage Rights	$ 481	100.00%	100%	100%	481
27	35301	Field Lines	$ 1,446	100.00%	100%	100%	1,446
28	35302	Tributary Lines	$ 1,697	100.00%	100%	100%	1,697
29	35400	Compressor Station Equipment	$ 16,622	100.00%	100%	100%	16,622
30	35500	Meas & Reg. Equipment	$ 2,268	100.00%	100%	100%	2,268
31	35600	Purification Equipment	$ 8,501	100.00%	100%	100%	8,501
32							
33		Total Storage Plant Depr	$ 235,463				$ 235,463
34							
35		Transmission Plant					
36	36510	Land	$ -	100.00%	100%	100%	$ -
37	36520	Rights of Way	$ 11,541	100.00%	100%	100%	11,541
38	36602	Structures & Improvements	$ 872	100.00%	100%	100%	872
39	36603	Other Structues	$ 1,083	100.00%	100%	100%	1,083
40	36700	Mains Cathodic Protection	$ 7,946	100.00%	100%	100%	7,946
41	36701	Mains - Steel	$ 522,461	100.00%	100%	100%	522,461
42	36900	Meas. & Reg. Equipment	$ 15,653	100.00%	100%	100%	15,653
43	36901	Meas. & Reg. Equipment	$ 48,568	100.00%	100%	100%	48,568
44							
45		Total Production Plant - (LPG) Depr	$ 608,126				$ 608,126
46							
47		Distribution Plant					
48	37400	Land & Land Rights	$ -	100.00%	100%	100%	$ -
49	37401	Land	$ -	100.00%	100%	100%	-
50	37402	Land Rights	$ 47,619	100.00%	100%	100%	47,619
51	37403	Land Other	$ -	100.00%	100%	100%	-
52	37500	Structures & Improvements	$ 6,925	100.00%	100%	100%	6,925
53	37501	Structures & Improvements T.B.	$ 2,056	100.00%	100%	100%	2,056
54	37502	Land Rights	$ 953	100.00%	100%	100%	953
55	37503	Improvements	$ 83	100.00%	100%	100%	83
56	37600	Mains Cathodic Protection	$ 1,035,250	100.00%	100%	100%	1,035,250
57	37601	Mains - Steel	$ 2,937,275	100.00%	100%	100%	2,937,275
58	37602	Mains - Plastic	$ 2,634,237	100.00%	100%	100%	2,634,237
59	37800	Meas & Reg. Sta. Equip - General	$ 397,764	100.00%	100%	100%	397,764
60	37900	Meas & Reg. Sta. Equip - City Gate	$ 144,584	100.00%	100%	100%	144,584
61	37905	Meas & Reg. Sta. Equipment T.b.	$ 81,544	100.00%	100%	100%	81,544
62	38000	Services	$ 4,883,872	100.00%	100%	100%	4,883,872
63	38100	Meters	$ 3,498,398	100.00%	100%	100%	3,498,398
64	38200	Meter Installaitons	$ 2,355,880	100.00%	100%	100%	2,355,880
65	38300	House Regulators	$ 369,153	100.00%	100%	100%	369,153
66	38400	House Reg. Installations	$ 5,908	100.00%	100%	100%	5,908
67	38500	Ind. Meas. & Reg. Sta. Equipment	$ 142,017	100.00%	100%	100%	142,017
68							
69		Total Distribution Plant Depr	$ 18,543,517				$ 18,543,517
70							
71		General Plant					
72	38900	38900-Land & Land Rights	$ -	100.00%	100%	100%	$ -
73	39000	39000-Structures & Improvements	$ 268,781	100.00%	100%	100%	268,781

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Depreciation Expense
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:______Base Period__X___Forecasted Period FR 16(8)(b)3.1
Type of Filing:___X____Original________Updated ________Revised Schedule B-3.1
Workpaper Reference No(s). Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	12 Months Ending 3/31/2019	O&M Expense Factor	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
74	39002	39002-Structures - Brick	$ 6,509	100.00%	100%	100%	6,509
75	39003	39003-Improvements	$ 26,666	100.00%	100%	100%	26,666
76	39004	39004-Air Conditioning Equipment	$ 487	100.00%	100%	100%	487
77	39009	39009-Improv. to Leased Premises	$ 97,151	100.00%	100%	100%	97,151
78	39100	39100-Office Furniture & Equipment	$ 119,701	100.00%	100%	100%	119,701
79	39103	Office Machines	$ -	100.00%	100%	100%	-
80	39200	39200-Transportation Equipment	$ 33,457	100.00%	100%	100%	33,457
81	39202	39202-WKG Trailers	$ -	100.00%	100%	100%	-
82	39400	39400-Tools, Shop, & Garage Equip.	$ 345,698	100.00%	100%	100%	345,698
83	39603	39603-Ditchers	$ 3,213	100.00%	100%	100%	3,213
84	39604	39604-Backhoes	$ 5,090	45.71%	100%	100%	2,327
85	39605	39605-Welders	$ 3,152	45.71%	100%	100%	1,441
86	39700	39700-Communication Equipment	$ 23,943	45.67%	100%	100%	10,934
87	39701	Communication Equip.	$ -	2.00%	100%	100%	-
88	39702	Communication Equip.	$ -	2.00%	100%	100%	-
89	39705	39705-Comm. Equip. - Telemetering	$ -	100.00%	100%	100%	-
90	39800	39800-Miscellaneous Equipment	$ 189,434	100.00%	100%	100%	189,434
91	39901	Servers Hardware	$ 1,439	100.00%	100%	100%	1,439
92	39902	Servers Software	$ -	100.00%	100%	100%	-
93	39903	39903-Oth Tang Prop - Network - H/W	$ 13,460	100.00%	100%	100%	13,460
94	39906	39906-Oth Tang Prop - PC Hardware	$ 357,344	100.00%	100%	100%	357,344
95	39907	39907-Oth Tang Prop - PC Software	$ -	100.00%	100%	100%	-
96	39908	39908-Oth Tang Prop - Appl Software	$ 2,060	100.00%	100%	100%	2,060
97		AR 15 general plant amortization	$ -	100.00%	100%	100%	-
98							
99		Total General Plant Depr	$ 1,497,586				$ 1,480,102
100							
101		Total Depreciation Expense (Div 9)	$ 20,884,691				$20,867,207
102							
103							
104							
105	**Kentucky-Mid-States General Office (Division 091)**						
106							
107		Intangible Plant					
108	30100	Organization	$ -	100.00%	100%	50.25%	$ -
109	30300	Misc Intangible Plant	$ -	100.00%	100%	50.25%	-
110							
111		Total Intangible Plant Depr	$ -				$ -
112							
113		Distribution Plant					
114	37400	Land & Land Rights	$ -	100.00%	100%	50.25%	$ -
115	35010	Land	-	100.00%	100%	50.25%	-
116	37402	Land Rights	-	100.00%	100%	50.25%	-
117	37403	Land Other	-	100.00%	100%	50.25%	-
118	36602	Structures & Improvements	-	100.00%	100%	50.25%	-
119	37501	Structures & Improvements T.B.	-	100.00%	100%	50.25%	-
120	37402	Land Rights	-	100.00%	100%	50.25%	-
121	37503	Improvements	-	100.00%	100%	50.25%	-
122	36700	Mains Cathodic Protection	-	100.00%	100%	50.25%	-
123	36701	Mains - Steel	-	100.00%	100%	50.25%	-
124	37602	Mains - Plastic	-	100.00%	100%	50.25%	-
125	37800	Meas & Reg. Sta. Equip - General	-	100.00%	100%	50.25%	-
126	37900	Meas & Reg. Sta. Equip - City Gate	-	100.00%	100%	50.25%	-
127	37905	Meas & Reg. Sta. Equipment T.b.	-	100.00%	100%	50.25%	-
128	38000	Services	-	100.00%	100%	50.25%	-
129	38100	Meters	-	100.00%	100%	50.25%	-
130	38200	Meter Installaitons	-	100.00%	100%	50.25%	-
131	38300	House Regulators	-	100.00%	100%	50.25%	-
132	38400	House Reg. Installations	-	100.00%	100%	50.25%	-
133	38500	Ind. Meas. & Reg. Sta. Equipment	-	100.00%	100%	50.25%	-
134	38600	Other Prop. On Cust. Prem	-	100.00%	100%	50.25%	-
135							
136		Total Distribution Plant Depr	$ -				$ -
137							
138		General Plant					
139	39001	39001-Structures - Frame	$ 4,806	100.00%	100%	50.25%	$ 2,415
140	39004	39004-Air Conditioning Equipment	$ 1,128	100.00%	100%	50.25%	567
141	39009	39009-Improv. to Leased Premises	$ -	100.00%	100%	50.25%	-
142	39100	39100-Office Furniture & Equipment	$ -	100.00%	100%	50.25%	-
143	39101	Office Furniture And	$ -	100.00%	100%	50.25%	-
144	39103	Office Machines	$ -	100.00%	100%	50.25%	-
145	39200	39200-Trans Equip- Group	$ 1,820	45.67%	100%	50.25%	418
146	39300	Stores Equipment	$ -	100.00%	100%	50.25%	-
147	39400	39400-Tools, Shop, & Garage Equip.	$ 6,184	45.67%	100%	50.25%	1,419
148	39600	39600-Power Operated Equipment	$ 894	2.00%	100%	50.25%	9

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Depreciation Expense
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:______Base Period__X___Forecasted Period — FR 16(8)(b)3.1
Type of Filing:___X____Original________Updated ________Revised — Schedule B-3.1
Workpaper Reference No(s). — Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	12 Months Ending 3/31/2019	O&M Expense Factor	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
149	39700	39700-Communication Equipment	$ 1,704	100.00%	100%	50.25%	856
150	39701	Communication Equip.	$ -	100.00%	100%	50.25%	-
151	39702	Communication Equip.	$ -	100.00%	100%	50.25%	-
152	39800	39800-Miscellaneous Equipment	$ 28,252	100.00%	100%	50.25%	14,197
153	39900	39900-Other Tangible Property	$ -	100.00%	100%	50.25%	-
154	39901	39901-Oth Tang Prop - Servers - H/W	$ -	100.00%	100%	50.25%	-
155	39902	39902-Oth Tang Prop - Servers - S/W	$ -	100.00%	100%	50.25%	-
156	39903	39903-Oth Tang Prop - Network - H/W	$ -	100.00%	100%	50.25%	-
157	39906	39906-Oth Tang Prop - PC Hardware	$ -	100.00%	100%	50.25%	-
158	39907	39907-Oth Tang Prop - PC Software	$ 3,896	100.00%	100%	50.25%	1,958
159	39908	39908-Oth Tang Prop - Appl Software	$ -	100.00%	100%	50.25%	-
160							
161							
162		Total General Plant Depr	$ 48,684				$ 21,838
163							
164		Total Depreciation Expense (Div 91)	$ 48,684				$ 21,838
165							
166	**Shared Services General Office (Division 002)**						
167							
168		General Plant					
169	39000	39000-Structures & Improvements	$ 42,485	100%	10.35%	50.25%	$ 2,210
170	39005	39005-G-Structures & Improvements	$ 274,904	100%	100.00%	1.55%	4,263
171	39009	39009-Improv. to Leased Premises	$ 318,540	100%	10.35%	50.25%	16,567
172	39020	Struct & Improv AEAM	$ -	100%	100.00%	6.44%	-
173	39029	Improv-Leased AEAM	$ -	100%	100.00%	6.44%	-
174	39100	39100-Office Furniture & Equipment	$ 203,100	100%	10.35%	50.25%	10,563
175	39102	39102-Remittance Processing Equipment	$ -	100%	10.35%	50.25%	-
176	39103	39103-Office Furn. - Copiers & Type	$ -	100%	10.35%	50.25%	-
177	39104	39104-G-Office Furniture & Equip.	$ 10,428	100%	100.00%	1.55%	162
178	39120	Off Furn & Equip-AEAM	$ 282	100%	100.00%	6.44%	18
179	39200	39200-Transportation Equipment	$ -	100%	10.35%	50.25%	-
180	39300	39300-Stores Equipment	$ -	100%	10.35%	50.25%	-
181	39400	39400-Tools, Shop, & Garage Equip.	$ 33,859	100%	10.35%	50.25%	1,761
182	39420	Tools And Garage-AEAM	$ -	100%	100.00%	6.44%	-
183	39500	39500-Laboratory Equipment	$ -	100%	10.35%	50.25%	-
184	39700	39700-Communication Equipment	$ 516	100%	10.35%	50.25%	27
185	39720	Commun Equip AEAM	$ -	100%	100.00%	6.44%	-
186	39800	39800-Miscellaneous Equipment	$ 391	100%	10.35%	50.25%	20
187	39820	Misc Equip - AEAM	$ 715	100%	100.00%	6.44%	46
188	39900	39900-Other Tangible Equipm	$ -	100%	10.35%	50.25%	-
189	39901	39901-Oth Tang Prop - Servers - H/W	$ 1,801,728	100%	10.35%	50.25%	93,708
190	39902	39902-Oth Tang Prop - Servers - S/W	$ 316,922	100%	10.35%	50.25%	16,483
191	39903	39903-Oth Tang Prop - Network - H/W	$ -	100%	10.35%	50.25%	-
192	39904	39904-Oth Tang Prop - CPU	$ -	100%	10.35%	50.25%	-
193	39905	39905-Oth Tang Prop - MF Hardware	$ -	100%	10.35%	50.25%	-
194	39906	39906-Oth Tang Prop - PC Hardware	$ 95,920	100%	10.35%	50.25%	4,989
195	39907	39907-Oth Tang Prop - PC Software	$ -	100%	10.35%	50.25%	-
196	39908	39908-Oth Tang Prop - Appl Software	$ 3,721	100%	10.35%	50.25%	194
197	39909	39909-Oth Tang Prop - Mainframe S/W	$ -	100%	10.35%	50.25%	-
198	39921	Servers-Hardware-AEAM	$ 67,192	100%	100.00%	6.44%	4,325
199	39922	Servers-Software-AEAM	$ 9,561	100%	100.00%	6.44%	615
200	39923	Network Hardware-AEAM	$ -	100%	100.00%	6.44%	-
201	39924	39924-Oth Tang Prop - Gen.	$ -	100%	10.35%	50.25%	-
202	39926	Pc Hardware-AEAM	$ -	100%	100.00%	6.44%	-
203	39928	Application SW-AEAM	$ 27,081	100%	100.00%	6.44%	1,743
204	39931	ALGN-Servers-Hardware	$ 23,034	100%	100.00%	0.00%	-
205	39932	ALGN-Servers-Software	$ -	100%	100.00%	0.00%	-
206	39938	ALGN-Application SW	$ -	100%	100.00%	0.00%	-
207							
208							
209		Total Depreciation Expense (Div 2)	$ 3,230,380				$ 157,695
210							
211	**Shared Services Customer Support (Division 012)**						
212							
213		General Plant					
214	38900	38900-Land	$ -	100%	10.93%	51.88%	$ -
215	38910	38910-CKV-Land & Land Rights	$ -	100%	100.00%	2.33%	-
216	39000	39000-Structures & Improvements	$ 379,882	100%	10.93%	51.88%	21,543
217	39009	39009-Improv. to Leased Premises	$ 91,670	100%	10.93%	51.88%	5,199
218	39010	39010-CKV-Structures & Improvements	$ 637,304	100%	100.00%	2.33%	14,865
219	39100	39100-Office Furniture & Equipment	$ 96,658	100%	10.93%	51.88%	5,481
220	39101	Office Furniture And	$ -	100%	10.93%	51.88%	-
221	39102	Remittance Processing	$ -	100%	10.93%	51.88%	-
222	39103	39103-Office Furn. - Copiers & Type	$ -	100%	10.93%	51.88%	-
223	39110	CKV-Office Furn & Eq	$ 81,919	100%	100.00%	2.33%	1,911

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Depreciation Expense
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:______Base Period__X___Forecasted Period | FR 16(8)(b)3.1
Type of Filing:___X____Original________Updated ________Revised | Schedule B-3.1
Workpaper Reference No(s). | Witness: Waller

Line No.	Acct. No.	Account / SubAccount Titles	12 Months Ending 3/31/2019	O&M Expense Factor	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
224	39210	CKV-Transportation Eq	$ 1,338	100%	100.00%	2.33%	31
225	39410	CKV-Tools Shop Garage	$ 29,109	100%	100.00%	2.33%	679
226	39510	CKV-Laboratory Equip	$ 2,375	100%	100.00%	2.33%	55
227	39700	39700-Communication Equipment	$ 111,917	100%	10.93%	51.88%	6,347
228	39710	39710-CKV-Communication Equipment	$ 17,218	100%	100.00%	2.33%	402
229	39800	39800-Miscellaneous Equipment	$ 3,704	100%	10.93%	51.88%	210
230	39810	CKV-Misc Equipment	$ 26,941	100%	100.00%	2.33%	628
231	39900	39900-Other Tangible Property	$ 82,169	100%	10.93%	51.88%	4,660
232	39901	39901-Oth Tang Prop - Servers - H/W	$ 882,786	100%	10.93%	51.88%	50,062
233	39902	39902-Oth Tang Prop - Servers - S/W	$ 168,879	100%	10.93%	51.88%	9,577
234	39903	39903-Oth Tang Prop - Network - H/W	$ 43,983	100%	10.93%	51.88%	2,494
235	39906	39906-Oth Tang Prop - PC Hardware	$ 97,404	100%	10.93%	51.88%	5,524
236	39907	39907-Oth Tang Prop - PC Software	$ 12,613	100%	10.93%	51.88%	715
237	39908	39908-Oth Tang Prop - Appl Software	$ 5,873,180	100%	10.93%	51.88%	333,063
238	39910	39910-CKV-Other Tangible Property	$ 34,650	100%	100.00%	2.33%	808
239	39916	39916-CKV-Oth Tang Prop-PC Hardware	$ 30,687	100%	100.00%	2.33%	716
240	39917	39917-CKV-Oth Tang Prop-PC Software	$ 8,170	100%	100.00%	2.33%	191
241	39918	CKV-Oth Tang Prop-App	$ 1,341	100%	100.00%	2.33%	31
242	39924	Oth Tang Prop - Gen.	$ -	100%	10.93%	51.88%	-
243							
244							
245		Total Depreciation Expense (Div 12)	$ 8,715,897				$ 465,191
246							
247		Total Accumulated Depreciation & Amortization (Div 009, 091, 002, 012)	$ 32,879,652				$21,511,931

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Allowance For Working Capital
as of December 31, 2017

Data:__X___Base Period______Forecasted Period — FR 16(8)(b)4
Type of Filing:___X____Original________Updated ________Revised — Schedule B-4 B
Workpaper Reference No(s). — Witness: Waller

Line No.	Working Capital Component	Description of methodology used to determine Jurisdictional Requirement	Workpaper Reference No.	Total Company
1	Cash Working Capital	1 / 8 O & M Method	B-4.2	$ 3,370,236
2	Material & Supplies	13 Month Average Balance	B-4.1	214,652
3	Gas Stored Underground	13 Month Average Balance	B-4.1	8,607,714
4	Prepayments	13 Month Average Balance	B-4.1	-
5	Total Working Capital Requirements			$ 12,192,603

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Allowance For Working Capital
as of March 31, 2019

Data:______Base Period__X___Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)4
Schedule B-4 F
Witness: Waller

Line No.	Working Capital Component	Description of methodology used to determine Jurisdictional Requirement	Workpaper Reference No.	Total Company
1	Cash Working Capital	1 / 8 O & M Method	B-4.2	$ 3,270,504
2	Material & Supplies	13 Month Average Balance	B-4.1	209,605
3	Gas Stored Underground	13 Month Average Balance	B-4.1	8,259,601
4	Prepayments	13 Month Average Balance	B-4.1	0
5	Total Working Capital Requirements			$ 11,739,710

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Working Capital Components
as of December 31, 2017

Data:__X___Base Period______Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)4.1
Schedule B-4.1 B
Witness: Waller

		Base Period Ending Balance				13 Month Average			
Line No.	Description	12/31/2017 Ending Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	12/31/2017 13 Month Avg	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
1	Material & Supplies (Account 1540 & 1630)								
2	Kentucky Direct (Div 009)	$ (270,522)	100%	100%	$ (270,522)	$ (254,109)	100%	100%	$ (254,109)
3	KY/Mid-States General Office (Div 091)	955,451	100%	50.25%	480,127	932,833	100%	50.25%	468,761
4	Shared Services General Office (Div 002)	-	10.35%	50.25%	-	-	10.35%	50.25%	-
5	Shared Services Customer Support (Div 012)	-	10.93%	51.88%	-	-	10.93%	51.88%	-
6	Total	$ 684,929			$ 209,605	$ 678,724			$ 214,652
7									
8	Gas Stored Underground (Account 1641)								
9	Kentucky Direct (Div 009)	$ 12,337,277	100%	100%	$ 12,337,277	$ 8,607,714	100%	100%	$ 8,607,714
10	KY/Mid-States General Office (Div 091)	-	100%	50.25%	-	-	100%	50.25%	-
11	Shared Services General Office (Div 002)	-	10.35%	50.25%	-	-	10.35%	50.25%	-
12	Shared Services Customer Support (Div 012)	-	10.93%	51.88%	-	-	10.93%	51.88%	-
13	Total	$ 12,337,277			$ 12,337,277	$ 8,607,714			$ 8,607,714
14									
15	Prepayments (Account 1650)								
16	Kentucky Direct (Div 009)	$ -	100%	100%	$ -	$ -	100%	100%	$ -
17	KY/Mid-States General Office (Div 091)	-	100%	50.25%	-	-	100%	50.25%	-
18	Shared Services General Office (Div 002)	-	10.35%	50.25%	-	-	10.35%	50.25%	-
19	Shared Services Customer Support (Div 012)	-	10.93%	51.88%	-	-	10.93%	51.88%	-
20	Total	$ -			$ -	$ -			$ -
21									
22	Total Other Working Capital Allowances	$ 13,022,207			$ 12,546,883	$ 9,286,439			$ 8,822,367

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Working Capital Components
as of March 31, 2019

Data:______Base Period__X___Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)4.1
Schedule B-4.1 F
Witness: Waller

		Forecasted Period Ending Balance				13 Month Average			
Line No.	Description	3/31/2019 Ending Balance	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount	3/31/2019 13 Month Avg	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
1	Material & Supplies (Account 1540 & 1630)								
2	Kentucky Direct (Div 009)	$ (270,522)	100%	100%	$ (270,522)	$ (270,522)	100%	100%	$ (270,522)
3	KY/Mid-States General Office (Div 091)	955,451	100%	50.25%	480,127	955,451	100%	50.25%	480,127
4	Shared Services General Office (Div 002)	-	10.35%	50.25%	-	-	10.35%	50.25%	-
5	Shared Services Customer Support (Div 012)	-	10.93%	51.88%	-	-	10.93%	51.88%	-
6	Total	$ 684,929			$ 209,605	$ 684,929			$ 209,605
7									
8	Gas Stored Underground (Account 1641)								
9	Kentucky Direct (Div 009)	$ (4,156,777)	100%	100%	$ (4,156,777)	$ 8,259,601	100%	100%	$ 8,259,601
10	KY/Mid-States General Office (Div 091)	-	100%	50.25%	-	-	100%	50.25%	-
11	Shared Services General Office (Div 002)	-	10.35%	50.25%	-	-	10.35%	50.25%	-
12	Shared Services Customer Support (Div 012)	-	10.93%	51.88%	-	-	10.93%	51.88%	-
13	Total	$ (4,156,777)			$ (4,156,777)	$ 8,259,601			$ 8,259,601
14									
15	Prepayments (Account 1650)								
16	Kentucky Direct (Div 009)	$ -	100%	100%	$ -	$ -	100%	100%	$ -
17	KY/Mid-States General Office (Div 091)	-	100%	50.25%	-	-	100%	50.25%	-
18	Shared Services General Office (Div 002)	-	10.35%	50.25%	-	-	10.35%	50.25%	-
19	Shared Services Customer Support (Div 012)	-	10.93%	51.88%	-	-	10.93%	51.88%	-
20	Total	$ -			$ -	$ -			$ -
21									
22	Total Other Working Capital Allowances	$ (3,471,848)			$ (3,947,172)	$ 8,944,530			$ 8,469,206

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Cash Working Capital Components - 1 / 8 O&M Expenses
as of December 31, 2017

Data:__X___Base Period______Forecasted Period — FR 16(8)(b)4.2
Type of Filing:___X____Original________Updated ________Revised — Schedule B-4.2 B
Workpaper Reference No(s). — Witness: Waller

Line No.	Description	Total Company	1 /8 Method Percent	Jurisdictional Amount
		(1)	(2)	(3)
1	Cash Working Capital			
2	Production O&M Expense	$ -	12.50%	$ -
3	Storage O&M Expense	402,609	12.50%	50,326
4	Transmission O&M Expense	267,885	12.50%	33,486
5	Distribution O&M Expense	6,643,818	12.50%	830,477
6	Customer Accting. & Collection	3,218,091	12.50%	402,261
7	Customer Service & Information	134,412	12.50%	16,802
8	Sales Expense	410,953	12.50%	51,369
9	Admin. & General Expense	15,884,124	12.50%	1,985,515
10	Total O & M Expenses	$ 26,961,891		$ 3,370,236

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Cash Working Capital Components - 1 / 8 O&M Expenses
as of March 31, 2019

Data:______Base Period__X___Forecasted Period — FR 16(8)(b)4.2
Type of Filing:___X____Original________Updated ________Revised — Schedule B-4.2 F
Workpaper Reference No(s). — Witness: Waller

Line No.	Description	Total Company (1)	1 /8 Method Percent (2)	Jurisdictional Amount (3)
1	Cash Working Capital			
2	Production O&M Expense	$ -	12.50%	$ -
3	Storage O&M Expense	404,981	12.50%	50,623
4	Transmission O&M Expense	270,673	12.50%	33,834
5	Distribution O&M Expense	6,775,544	12.50%	846,943
6	Customer Accting. & Collection	3,376,766	12.50%	422,096
7	Customer Service & Information	133,614	12.50%	16,702
8	Sales Expense	357,069	12.50%	44,634
9	Admin. & General Expense	14,845,383	12.50%	1,855,673
10	Total O & M Expenses	$ 26,164,029		$ 3,270,504

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Deferred Credits and Accumulated Deferred Income Taxes
as of December 31, 2017

Data:__X___Base Period_____Forecasted Period
Type of Filing:___X____Original________Updated
Workpaper Reference No(s).

FR 16(8)(b)5
Sch. B-5 B
Witness: Waller

Line No.	Account	Period End	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Jurisdictional Period ending Balance	13-Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
	DIVISION 09								
1	Account 190 - Accumulated Deferred Income Taxes (1)	$ 58,597,635	100%	100%	$ 58,597,635	$ 7,105,302	100%	100%	$ 7,105,302
2									
3	Account 282 - Accumulated Deferred Income Taxes	(111,956,140)	100%	100%	(111,956,140)	(102,711,746)	100%	100%	(102,711,746)
4									
5	Account 283 - Accumulated Deferred Income Taxes - Other	(4,189,005)	100%	100%	(4,189,005)	(1,864,673)	100%	100%	(1,864,673)
6									
7	Div 09 Accumulated Deferred Income Taxes	$ (57,547,510)			$ (57,547,510)	$ (97,471,117)			$ (97,471,117)
8									
9	**DIVISION 02**								
10	Account 190 - Accumulated Deferred Income Taxes	$ 515,666,099	10.35%	50.25%	$ 26,819,875	$ 809,489,773	10.35%	50.25%	$ 42,101,691
11									
12	Account 282 - Accumulated Deferred Income Taxes	(6,689,771)	10.35%	50.25%	(347,936)	(26,335,934)	10.35%	50.25%	(1,369,736)
13									
14	Account 283 - Accumulated Deferred Income Taxes - Other	23,059,258	10.35%	50.25%	1,199,316	25,650,070	10.35%	50.25%	1,334,064
15									
16	Div 02 Accumulated Deferred Income Taxes	$ 532,035,587			$ 27,671,255	$ 808,803,909			$ 42,066,019
17	**DIVISION 12**								
18	Account 190 - Accumulated Deferred Income Taxes	$ 10,835,399	10.93%	51.88%	$ 614,465	$ 836,027	10.93%	51.88%	$ 47,410
19									
20	Account 282 - Accumulated Deferred Income Taxes	(27,565,559)	10.93%	51.88%	(1,563,217)	(27,808,821)	10.93%	51.88%	(1,577,012)
21									
22	Account 283 - Accumulated Deferred Income Taxes - Other	(1,326,618)	10.93%	51.88%	(75,231)	(806,114)	10.93%	51.88%	(45,714)
23									
24	Div 012 Accumulated Deferred Income Taxes	$ (18,056,778)			$ (1,023,983)	$ (27,778,908)			$ (1,575,316)
25	**DIVISION 91**								
26									
27	Account 190 - Accumulated Deferred Income Taxes	$ (92,981,851)	100%	50.25%	$ (46,724,646)	$ (2,872,593)	100%	50.25%	$ (1,443,517)
28									
29	Account 255 - Accumulated Deferred Investment Tax Credits	0	100%	50.25%	0	0	100%	50.25%	0
30									
31	Account 282 - Accumulated Deferred Income Taxes	87,637,611	100%	50.25%	44,039,092	1,447,524	100%	50.25%	727,401
32									
33	Account 283 - Accumulated Deferred Income Taxes - Other	(609,788)	100%	50.25%	(306,427)	(1,560,516)	100%	50.25%	(784,180)
34									
35	Div 91 Accumulated Deferred Income Taxes	$ (5,954,029)			$ (2,991,981)	$ (2,985,584)			$ (1,500,297)
36									
37	**Total Deferred Inc. Taxes and Investment Tax Credits**	$ 450,477,269			$ (33,892,218)	$ 680,568,300			$ (58,480,710)

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Deferred Credits and Accumulated Deferred Income Taxes
as of March 31, 2019

Data:_____Base Period___X__Forecasted Period
Type of Filing:___X____Original________Updated
Workpaper Reference No(s).

FR 16(8)(b)5
Sch. B-5 F
Witness: Waller

Line No.	Account	Period End	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Jurisdictional Period ending Balance	13-Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
	DIVISION 09								
1	Account 190 - Accumulated Deferred Income Taxes	$ 10,404,258	100%	100%	$ 10,404,258	$ 10,404,258	100%	100%	$ 10,404,258
2									
3	Account 282 - Accumulated Deferred Income Taxes	(69,070,982)	100%	100%	(69,070,982)	(68,034,398)	100%	100%	(68,034,398)
4									
5	Account 283 - Accumulated Deferred Income Taxes - Other	(58,142)	100%	100%	(58,142)	(58,142)	100%	100%	(58,142)
6									
7	Div 09 Accumulated Deferred Income Taxes	$ (58,724,866)			$ (58,724,866)	$ (57,688,282)			$ (57,688,282)
8									
9	**DIVISION 02**								
10	Account 190 - Accumulated Deferred Income Taxes	###########	10.35%	50.25%	$ 26,466,032	$ 508,862,755	10.35%	50.25%	$ 26,466,032
11									
12	Account 282 - Accumulated Deferred Income Taxes	(17,108,074)	10.35%	50.25%	(889,794)	(16,654,266)	10.35%	50.25%	(866,191)
13									
14	Account 283 - Accumulated Deferred Income Taxes - Other	27,259,100	10.35%	50.25%	1,417,750	27,259,100	10.35%	50.25%	1,417,750
15									
16	Div 02 Accumulated Deferred Income Taxes	###########			$ 26,993,989	$ 519,467,589			$ 27,017,592
17	**DIVISION 12**								
18	Account 190 - Accumulated Deferred Income Taxes	$ 6,868	10.93%	51.88%	$ 389	$ 6,868	10.93%	51.88%	$ 389
19									
20	Account 282 - Accumulated Deferred Income Taxes	(14,896,582)	10.93%	51.88%	(844,771)	(15,622,978)	10.93%	51.88%	(885,964)
21									
22	Account 283 - Accumulated Deferred Income Taxes - Other	(298,010)	10.93%	51.88%	(16,900)	(298,010)	10.93%	51.88%	(16,900)
23									
24	Div 012 Accumulated Deferred Income Taxes	$ (15,187,724)			$ (861,282)	$ (15,914,120)			$ (902,475)
25	**DIVISION 91**								
26	Account 190 - Accumulated Deferred Income Taxes	$ 970,543	100%	50.25%	$ 487,711	$ 970,543	100%	50.25%	$ 487,711
27									
28	Account 255 - Accumulated Deferred Investment Tax Credits	0	100%	50.25%	0	0	100%	50.25%	0
29									
30	Account 282 - Accumulated Deferred Income Taxes	(7,295,497)	100%	50.25%	(3,666,087)	(7,302,627)	100%	50.25%	(3,669,669)
31									
32	Account 283 - Accumulated Deferred Income Taxes - Other	(835,959)	100%	50.25%	(420,081)	(835,959)	100%	50.25%	(420,081)
33									
34	Div 91 Accumulated Deferred Income Taxes	$ (7,160,913)			$ (3,598,456)	$ (7,168,043)			$ (3,602,039)
35									
36									
37	**Total Deferred Inc. Taxes and Investment Tax Credits**	###########			$ (36,190,616)	$ 438,697,144			$ (35,175,205)
38	*(excluding forecasted change in NOLC)*								
39	**Forecasted Change in NOLC**								(6,731,374)
40									
41	**Forecasted 13-month Average ADIT in Rate Base**								**(41,906,579)**
42									

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Deferred Credits and Accumulated Deferred Income Taxes
as of March 31, 2019

Data:_____Base Period___X__Forecasted Period
Type of Filing:___X____Original________Updated
Workpaper Reference No(s).

FR 16(8)(b)5
Sch. B-5 F
Witness: Waller

Line No.	Account	Period End	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Jurisdictional Period ending Balance	13-Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
43	**Calculation of Change in NOLC**								
44	**(from 13-month average Base Period to 13-month average Forecasted Period**								
45				Schedule					
46	Forecasted Test Period			Reference					
47									
48	13-month average Rate Base			B.1 F		427,151,221			
49									
50	Required Operating Income			A.1		32,976,074			
51									
52	Interest Deduction			E.1		9,854,614			
53									
54	Return on Equity Portion of Rate Base			line 50 - line 52		23,121,460			
55									
56	Return, grossed up for Income Tax	25.74%		Line 54 / (1-tax rate)		31,135,821			
57									
58	Tax Expense on Return	25.74%		Line 56 x tax rate		8,014,360			
59									
60	Change In ADIT, excluding forecasted change in NOLC			Line 37; B.5 B		(1,282,986)			
61	Required Change in NOLC					(6,731,374)		0	
62									
63	**Total Required Change in Accumulated Deferred Income Taxes[1]**			**B.1 F; B.1 B**		**(8,014,360)**			
64									
65									
66	**ADIT Reconciliation**								
67	**Period End ADIT, Base Period**			**B.5 B**		**(33,892,218)**			
68									
69	13-Month Average ADIT, Forecasted Period, excl, Change in NOLC			Line 37		(35,175,205)			
70	Change in NOLC			Line 39		(6,731,374)			
71	**Forecasted 13-month Average ADIT in Rate Base**					**(41,906,579)**			
72									
73	**Total Required Change in Accumulated Deferred Income Taxes**			Line 71 - Line 67		**(8,014,360)**			
74									
75									
76	[1] *Because the Company is in a NOLC position, the total change in ADIT must equal the tax expenses included in revenue requirement*								

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Customer Advances For Construction
as of December 31, 2017

Data:__X___Base Period_____Forecasted Period
Type of Filing:___X____Original________Updated
Workpaper Reference No(s).

FR 16(8)(b)6
Sch. B-6 B
Witness: Waller

Line No.		Account	Period End	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Jurisdictional Period ending Balance	13-Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
	DIVISION 09									
1	15560	Account 252 - Customer Advances For Construction	$(1,437,537)	100%	100%	$ (1,437,537)	$(1,455,773)	100%	100%	$ (1,455,773)
2										
3	**DIVISION 02**									
4	15560	Account 252 - Customer Advances For Construction	-	10.35%	50.25%	-	-	10.35%	50.25%	-
5										
6	**DIVISION 12**									
7	15560	Account 252 - Customer Advances For Construction	-	10.93%	51.88%	-	-	10.93%	51.88%	-
8										
9	**DIVISION 91**									
10	15560	Account 252 - Customer Advances For Construction	-	100%	50.25%	-	-	100%	50.25%	-
11										
12		Total Account 252 - Customer Advances For Construction	$(1,437,537)			$ (1,437,537)	$(1,455,773)			$ (1,455,773)

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Customer Advances For Construction
as of March 31, 2019

Data:_____Base Period___X__Forecasted Period
Type of Filing:___X____Original________Updated
Workpaper Reference No(s).

FR 16(8)(b)6
Sch. B-6 F
Witness: Waller

Line No.		Account	Period End	Kentucky- Mid States Divisior Allocation	Kentucky Jurisdiction Allocation	Jurisdictional Period ending Balance	13-Month Average	Kentucky- Mid States Division Allocation	Kentucky Jurisdiction Allocation	Allocated Amount
	DIVISION 09									
1	15560	Account 252 - Customer Advances For Construction	$(1,437,537)	100%	100%	$ (1,437,537)	$(1,437,537)	100%	100%	$ (1,437,537)
2										
3	**DIVISION 02**									
4	15560	Account 252 - Customer Advances For Construction	-	10.35%	50.25%	-	-	10.35%	50.25%	-
5										
6	**DIVISION 12**									
7	15560	Account 252 - Customer Advances For Construction	-	10.93%	51.88%	-	-	10.93%	51.88%	-
8										
9	**DIVISION 91**									
10	15560	Account 252 - Customer Advances For Construction	0	100%	50.25%	0	0	100%	50.25%	0
11										
12		Total Account 252 - Customer Advances For Constructior	$(1,437,537)			$ (1,437,537)	$(1,437,537)			$ (1,437,537)

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Forecasted Test Period: Twelve Months Ended March 31, 2019
Working Capital Components

FR 16(8)(b)4.1

Line No.	Description	Budgeted Mar-18	Budgeted Apr-18	Budgeted May-18	Budgeted Jun-18	Budgeted Jul-18	Forecasted Aug-18	Forecasted Sep-18	Forecasted Oct-18	Forecasted Nov-18	Forecasted Dec-18	Forecasted Jan-19	Forecasted Feb-19	Forecasted Mar-19	13 Month Average
1	**Materials & Supplies**														
2															
3	Kentucky Direct (Div 009)														
4	Account 1540- Plant Materials and Operating Supplie	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
5	Account 1630- Stores Expense Undistributed	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	
6	Total Materials & Supplies	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)
7															
8	KY/Mid-States General Office (Div 091)														
9	Account 1540- Plant Materials and Operating Supplie	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	
10	Account 1630- Stores Expense Undistributed	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	
11	Total Materials & Supplies	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451
12															
13	Shared Services General Office (Div 002)														
14	Account 1540- Plant Materials and Operating Supplie	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
15	Account 1630- Stores Expense Undistributed	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
16	Total Materials & Supplies	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
17															
18	Shared Services Customer Support (Div 012)														
19	Account 1540- Plant Materials and Operating Supplie	0	0	0	0	0	0	0	0	0	0	0	0	0	
20	Account 1630- Stores Expense Undistributed	0	0	0	0	0	0	0	0	0	0	0	0	0	
21	Total Materials & Supplies	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22															
23	**Gas Stored Underground- Account 1641**														
24															
25	Kentucky Direct (Div 009)	$ (5,040,825)	$ (1,178,144)	$ 2,639,752	$ 6,490,578	$10,375,650	$ 14,265,991	$18,124,720	$22,008,475	$19,939,491	$14,923,261	$ 8,081,738	$ 900,906	$ (4,156,777)	$ 8,259,601
26															
27	KY/Mid-States General Office (Div 091)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
28															
29	Shared Services General Office (Div 002)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30															
31	Shared Services Customer Support (Div 012)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
32															
33	**Prepayments- Account 1650**														
34															
35	Kentucky Direct (Div 009)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
36															
37	KY/Mid-States General Office (Div 091)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
38															
39	Shared Services General Office (Div 002)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
40															
41	Shared Services Customer Support (Div 012)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Working Capital Components

FR 16(8)(b)4.1

Line No.	Description	actual Dec-16	actual Jan-17	actual Feb-17	actual Mar-17	actual Apr-17	actual May-17	actual Jun-17	forecasted Jul-17	Budgeted Aug-17	Budgeted Sep-17	Budgeted Oct-17	Budgeted Nov-17	Budgeted Dec-17	13 Month Average
1	**Materials & Supplies**														
2															
3	Kentucky Direct (Div 009)														
4	Account 1540- Plant Materials and Operating Supplie	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
5	Account 1630- Stores Expense Undistributed	$ (57,155)	$ (62,146)	$ (86,325)	$ (278,877)	$ (351,177)	$ (398,764)	$ (445,843)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	
6	Total Materials & Supplies	$ (57,155)	$ (62,146)	$ (86,325)	$ (278,877)	$ (351,177)	$ (398,764)	$ (445,843)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (270,522)	$ (254,109)
7															
8	KY/Mid-States General Office (Div 091)														
9	Account 1540- Plant Materials and Operating Supplie	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	$ 76,075	
10	Account 1630- Stores Expense Undistributed	$ 585,343	$ 656,725	$ 760,358	$ 853,996	$ 913,350	$ 1,012,172	$ 1,079,654	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	$ 879,376	
11	Total Materials & Supplies	$ 661,418	$ 732,800	$ 836,434	$ 930,071	$ 989,425	$ 1,088,248	$ 1,155,729	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 955,451	$ 932,833
12															
13	Shared Services General Office (Div 002)														
14	Account 1540- Plant Materials and Operating Supplie	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
15	Account 1630- Stores Expense Undistributed	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
16	Total Materials & Supplies	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
17															
18	Shared Services Customer Support (Div 012)														
19	Account 1540- Plant Materials and Operating Supplie	0	0	0	0	0	0	0	0	0	0	0	0	0	
20	Account 1630- Stores Expense Undistributed	0	0	0	0	0	0	0	0	0	0	0	0	0	
21	Total Materials & Supplies	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
22															
23	**Gas Stored Underground- Account 1641**														
24															
25	Kentucky Direct (Div 009)	$14,824,455	$ 6,741,671	$ 2,380,329	$ (1,585,227)	$ 1,123,327	$ 2,873,790	$ 5,812,076	$ 8,272,784	$11,340,754	$ 14,331,314	$ 17,779,376	$15,668,363	$12,337,277	$ 8,607,714
26															
27	KY/Mid-States General Office (Div 091)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
28															
29	Shared Services General Office (Div 002)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
30															
31	Shared Services Customer Support (Div 012)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
32															
33	**Prepayments- Account 1650**														
34															
35	Kentucky Direct (Div 009)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
36															
37	KY/Mid-States General Office (Div 091)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
38															
39	Shared Services General Office (Div 002)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
40															
41	Shared Services Customer Support (Div 012)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Deferred Credits and Accumulated Deferred Income Taxes

Base Period: Twelve Months Ended December 31, 2017

Data:__X___Base Period______Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

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Line No.	Sub Acct	actual Dec-16	actual Jan-17	actual Feb-17	actual Mar-17	actual Apr-17	actual May-17	actual Jun-17	actual Jul-17	actual Aug-17	actual Sep-17	actual Oct-17	actual Nov-17	actual Dec-17	13 month Average
	DIVISION 09														
1	Account 190 - Accumulated Deferred Income Taxes	$ 2,519,498	$ 2,519,498	$ 2,519,498	$ 2,519,498	$ 2,519,498	$ 2,519,498	$ 2,519,498	$ 2,519,498	$ 2,519,498	$ 3,698,602	$ 3,698,602	$ 3,698,602	$ 58,597,635	$ 7,105,302
2															
3	Account 282 - Accumulated Deferred Income Taxes	(98,603,126)	(98,603,126)	(98,603,126)	(98,603,126)	(98,603,126)	(98,603,126)	(98,603,126)	(98,603,126)	(98,603,126)	(111,956,140)	(111,956,140)	(111,956,140)	(111,956,140)	(102,711,746)
4															
5	Account 283 - Accumulated Deferred Income Taxes - Other	(831,636)	(831,636)	(831,636)	(831,636)	(831,636)	(831,636)	(831,636)	(831,636)	(831,636)	(4,189,005)	(4,189,005)	(4,189,005)	(4,189,005)	(1,864,673)
6															
7	Div 09 Accumulated Deferred Income Taxes	$ (96,915,264)	$ (96,915,264)	$ (96,915,264)	$ (96,915,264)	$ (96,915,264)	$ (96,915,264)	$ (96,915,264)	$ (96,915,264)	$ (96,915,264)	$ (112,446,543)	$ (112,446,543)	$(112,446,543)	$ (57,547,510)	$ (97,471,117)
8															
9	**DIVISION 02**														
10	Account 190 - Accumulated Deferred Income Taxes	$814,487,516	$814,487,516	$814,487,516	$828,348,815	$828,348,815	$828,348,815	$831,419,397	$ 831,419,397	$ 831,419,397	$ 861,644,590	$ 861,644,590	$ 861,644,590	$515,666,099	$ 809,489,773
11															
12	Account 282 - Accumulated Deferred Income Taxes	823,198	823,198	823,198	(49,976,379)	(49,976,379)	(49,976,379)	(35,492,391)	(35,492,391)	(35,492,391)	(27,246,886)	(27,246,886)	(27,246,886)	(6,689,771)	(26,335,934)
13															
14	Account 283 - Accumulated Deferred Income Taxes - Other	18,200,874	15,873,894	14,260,639	14,934,609	22,864,483	28,876,846	25,114,927	24,367,392	31,965,571	39,734,596	37,249,731	36,948,088	23,059,258	25,650,070
15															
16	Div 02 Accumulated Deferred Income Taxes	$833,511,588	$831,184,608	$829,571,354	$793,307,044	$801,236,919	$807,249,282	$821,041,933	$ 820,294,398	$ 827,892,577	$ 874,132,301	$ 871,647,435	$ 871,345,792	$532,035,587	$ 808,803,909
17	**DIVISION 12**														
18	Account 190 - Accumulated Deferred Income Taxes	$ (0)	$ (0)	$ (0)	$ (0)	$ (0)	$ (0)	$ (0)	$ (0)	$ (0)	$ 10,986	$ 10,986	$ 10,986	$ 10,835,399	$ 836,027
19															
20	Account 282 - Accumulated Deferred Income Taxes	(27,916,937)	(27,916,937)	(27,916,937)	(27,916,937)	(27,916,937)	(27,916,937)	(27,916,937)	(27,916,937)	(27,916,937)	(27,565,559)	(27,565,559)	(27,565,559)	(27,565,559)	(27,808,821)
21															
22	Account 283 - Accumulated Deferred Income Taxes - Other	(574,779)	(574,779)	(574,779)	(574,779)	(574,779)	(574,779)	(574,779)	(574,779)	(574,779)	(1,326,618)	(1,326,618)	(1,326,618)	(1,326,618)	(806,114)
23															
24	Div 012 Accumulated Deferred Income Taxes	$ (28,491,717)	$ (28,491,717)	$ (28,491,717)	$ (28,491,717)	$ (28,491,717)	$ (28,491,717)	$ (28,491,717)	$ (28,491,717)	$ (28,491,717)	$ (28,881,192)	$ (28,881,192)	$ (28,881,192)	$ (18,056,778)	$ (27,778,908)
25															
26	**DIVISION 91**														
27	Account 190 - Accumulated Deferred Income Taxes	$ 5,723,472	$ 5,723,472	$ 5,723,472	$ 5,723,472	$ 5,723,472	$ 5,723,472	$ 5,723,472	$ 5,723,472	$ 5,723,472	$ 1,375,632	$ 1,375,632	$ 1,375,632	$ (92,981,851)	$ (2,872,593)
28															
29	Account 282 - Accumulated Deferred Income Taxes	(4,004,703)	(4,004,703)	(4,004,703)	(10,319,370)	(10,319,370)	(10,319,370)	(13,731,308)	(13,731,308)	(13,731,308)	5,115,450	5,115,450	5,115,450	87,637,611	1,447,524
30															
31	Account 283 - Accumulated Deferred Income Taxes - Other	(1,653,672)	(1,653,672)	(1,653,672)	(1,653,672)	(1,653,672)	(1,653,672)	(1,653,672)	(1,653,672)	(1,653,672)	(1,597,956)	(1,597,956)	(1,597,956)	(609,788)	(1,560,516)
32															
33	Account 255 - Accumulated Deferred Investment Tax Credit	0	0	0	0	0	0	0	0	0	0	0	0	0	-
34															
35	Div 91 Accumulated Deferred Income Taxes	$ 65,097	$ 65,097	$ 65,097	$ (6,249,570)	$ (6,249,570)	$ (6,249,570)	$ (9,661,508)	$ (9,661,508)	$ (9,661,508)	$ 4,893,125	$ 4,893,125	$ 4,893,125	$ (5,954,029)	$ (2,985,584)
36															
37	Total	$708,169,704	$705,842,724	$704,229,469	$661,650,493	$669,580,368	$675,592,731	$685,973,443	$ 685,225,909	$ 692,824,088	$ 737,697,691	$ 735,212,826	$ 734,911,183	$450,477,269	$ 680,568,300

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Deferred Credits and Accumulated Deferred Income Taxes
Base Period: Twelve Months Ended December 31, 2017

Data:______Base Period__X___Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)5
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Line No.	Sub Acct	Budgeted Mar-18	Budgeted Apr-18	Budgeted May-18	Budgeted Jun-18	Budgeted Jul-18	Forecast Aug-18	Forecast Sep-18	Forecast Oct-18	Forecast Nov-18	Forecast Dec-18	Forecast Jan-19	Forecast Feb-19	Forecast Mar-19	13 month Average
	DIVISION 09														
1	Account 190 - Accumulated Deferred Income Taxes	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258	$ 10,404,258
2															
3	Account 282 - Accumulated Deferred Income Taxes	(66,079,239)	(66,435,162)	(66,881,384)	(67,258,104)	(67,735,415)	(68,149,004)	(68,429,775)	(68,604,358)	(68,835,090)	(68,936,403)	(69,013,257)	(69,019,003)	(69,070,982)	(68,034,398)
4															
5	Account 283 - Accumulated Deferred Income Taxes - Other	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)	(58,142)
6															
7	Div 09 Accumulated Deferred Income Taxes	$ (55,733,123)	$ (56,089,047)	$ (56,535,268)	$ (56,911,989)	$ (57,389,299)	$ (57,802,888)	$ (58,083,659)	$ (58,258,243)	$ (58,488,974)	$ (58,590,287)	$ (58,667,141)	$ (58,672,887)	$ (58,724,866)	$ (57,688,282)
8															
9	**DIVISION 02**														
10	Account 190 - Accumulated Deferred Income Taxes	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755	$ 508,862,755
11															
12	Account 282 - Accumulated Deferred Income Taxes	(16,310,781)	(16,357,346)	(16,403,952)	(16,450,532)	(16,497,087)	(16,543,616)	(16,590,120)	(16,676,227)	(16,762,421)	(16,848,703)	(16,935,073)	(17,021,530)	(17,108,074)	(16,654,266)
13															
14	Account 283 - Accumulated Deferred Income Taxes - Other	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100	27,259,100
15															
16	Div 02 Accumulated Deferred Income Taxes	$ 519,811,074	$ 519,764,510	$ 519,717,903	$ 519,671,323	$ 519,624,768	$ 519,578,239	$ 519,531,736	$ 519,445,628	$ 519,359,434	$ 519,273,152	$ 519,186,782	$ 519,100,325	$ 519,013,781	$ 519,467,589
17	**DIVISION 12**														
18	Account 190 - Accumulated Deferred Income Taxes	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868	$ 6,868
19															
20	Account 282 - Accumulated Deferred Income Taxes	(16,363,147)	(16,239,339)	(16,114,938)	(15,990,085)	(15,864,640)	(15,738,603)	(15,611,973)	(15,493,886)	(15,375,342)	(15,256,339)	(15,136,878)	(15,016,959)	(14,896,582)	(15,622,978)
21															
22	Account 283 - Accumulated Deferred Income Taxes - Other	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)	(298,010)
23															
24	Div 012 Accumulated Deferred Income Taxes	$ (16,654,289)	$ (16,530,481)	$ (16,406,080)	$ (16,281,227)	$ (16,155,782)	$ (16,029,745)	$ (15,903,115)	$ (15,785,028)	$ (15,666,484)	$ (15,547,481)	$ (15,428,020)	$ (15,308,101)	$ (15,187,724)	$ (15,914,120)
25															
26	**DIVISION 91**														
27	Account 190 - Accumulated Deferred Income Taxes	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543	$ 970,543
28															
29	Account 282 - Accumulated Deferred Income Taxes	(7,308,835)	(7,307,888)	(7,306,941)	(7,305,994)	(7,305,047)	(7,304,100)	(7,303,153)	(7,301,883)	(7,300,612)	(7,299,342)	(7,298,071)	(7,296,784)	(7,295,497)	(7,302,627)
30															
31	Account 283 - Accumulated Deferred Income Taxes - Other	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)	(835,959)
32															
33	Account 255 - Accumulated Deferred Investment Tax Credits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34															
35	Div 91 Accumulated Deferred Income Taxes	$ (7,174,251)	$ (7,173,304)	$ (7,172,357)	$ (7,171,410)	$ (7,170,463)	$ (7,169,516)	$ (7,168,569)	$ (7,167,299)	$ (7,166,028)	$ (7,164,758)	$ (7,163,487)	$ (7,162,200)	$ (7,160,913)	$ (7,168,043)
36															
37	Total	$ 440,249,411	$ 439,971,678	$ 439,604,199	$ 439,306,697	$ 438,909,224	$ 438,576,090	$ 438,376,392	$ 438,235,059	$ 438,037,948	$ 437,970,627	$ 437,928,134	$ 437,957,137	$ 437,940,278	$ 438,697,144

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019
Deferred Liablity Amortization

Amortization Period (Reverse South Georgia Calculatio 24

	12 Months Ended 3/31/ 20XX	Excess Deferred Balance	Amortization Expense
ADIT Excess Deferred Liabilities	2018	(35,309,597)	
Account 2530 - 27909	2019	(33,838,364)	(1,471,233)
	2020	(32,367,130)	(1,471,233)
	2021	(30,895,897)	(1,471,233)
	2022	(29,424,664)	(1,471,233)
	2023	(27,953,431)	(1,471,233)
	2024	(26,482,198)	(1,471,233)
	2025	(25,010,964)	(1,471,233)
	2026	(23,539,731)	(1,471,233)
	2027	(22,068,498)	(1,471,233)
	2028	(20,597,265)	(1,471,233)
	2029	(19,126,032)	(1,471,233)
	2030	(17,654,798)	(1,471,233)
	2031	(16,183,565)	(1,471,233)
	2032	(14,712,332)	(1,471,233)
	2033	(13,241,099)	(1,471,233)
	2034	(11,769,866)	(1,471,233)
	2035	(10,298,632)	(1,471,233)
	2036	(8,827,399)	(1,471,233)
	2037	(7,356,166)	(1,471,233)
	2038	(5,884,933)	(1,471,233)
	2039	(4,413,700)	(1,471,233)
	2040	(2,942,466)	(1,471,233)
	2041	(1,471,233)	(1,471,233)
	2042	0	(1,471,233)

	Regulatory Liability Balance	Amortization Expense
Mar-18	(35,309,597)	
Apr-18	(35,186,994)	(122,603)
May-18	(35,064,391)	(122,603)
Jun-18	(34,941,788)	(122,603)
Jul-18	(34,819,186)	(122,603)
Aug-18	(34,696,583)	(122,603)
Sep-18	(34,573,980)	(122,603)
Oct-18	(34,451,377)	(122,603)
Nov-18	(34,328,775)	(122,603)
Dec-18	(34,206,172)	(122,603)
Jan-19	(34,083,569)	(122,603)
Feb-19	(33,960,966)	(122,603)
Mar-19	(33,838,364)	(122,603)
(13 Month Average)	**(34,573,980)**	**(122,603)**

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Deferred Credits
Base Period: Twelve Months Ended December 31, 2017

Data:__X___Base Period______Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)6
Sched. B-6

Line No.	Sub Acct		actual Dec-16	actual Jan-17	actual Feb-17	actual Mar-17	actual Apr-17	actual May-17	actual Jun-17	Budgeted Jul-17	Budgeted Aug-17	Budgeted Sep-17	Budgeted Oct-17	Budgeted Nov-17	Budgeted Dec-17	13 month Average
	DIVISION 09															
1		Account 252 - Customer Advances For Construction	(1,674,613)	(1,744,327)	(1,740,195)	(1,623,599)	(1,304,467)	(1,194,207)	(1,018,425)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,455,773)
2																
3	**DIVISION 02**															
4	15560	Account 252 - Customer Advances For Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5																
6	**DIVISION 12**															
7	15560	Account 252 - Customer Advances For Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8																
9	**DIVISION 91**															
10	15560	Account 252 - Customer Advances For Construction	0	0	0	0	0	0	0	-	-	-	-	-	-	-

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Deferred Credits
Base Period: Twelve Months Ended December 31, 2017

Data:______Base Period__X___Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).

FR 16(8)(b)5
Sched. B-5

Line No.	Sub Acct		Budgeted Mar-18	Budgeted Apr-18	Budgeted May-18	Budgeted Jun-18	Budgeted Jul-18	Forecasted Aug-18	Forecasted Sep-18	Forecasted Oct-18	Forecasted Nov-18	Forecasted Dec-18	Forecasted Jan-19	Forecasted Feb-19	Forecasted Mar-19	13 month Average
	DIVISION 09															
1		Account 252 - Customer Advances For Construction	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)	(1,437,537)
2																
3	**DIVISION 02**															
4	15560	Account 252 - Customer Advances For Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	0
5																
6	**DIVISION 12**															
7	15560	Account 252 - Customer Advances For Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	0
8																
9	**DIVISION 91**															
10	15560	Account 252 - Customer Advances For Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	0

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

FR 16(8)(c) **SCHEDULE C**

Operating Income Summary

Schedule	Pages	Description
C-1	1	Operating Income Summary
C-2	1	Adjusted Operating Income
C-2.1	10	Operating Revenue and Expenses by FERC Account
C-2.2	10	Monthly Operating Income by FERC Account
C-2.3	2	Taxes Other than Income Tax by Sub-Account

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Income Summary
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__X____Base Period___X___Forecasted Period — FR 16(8)(c)1
Type of Filing:___X____Original________Updated ________Revised — Schedule C-1
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Description	Base Return at Current Rates	Forecasted Return at Current Rates	Proposed Increase	Forecasted Return at Proposed Rates
1	Operating Revenue	$ 156,713,247	$ 170,729,276	$ 3,235,315	$ 173,964,591
2	Operating Expenses				
3	Purchased Gas Cost	65,546,014	78,709,117		78,709,117
4	Other O & M Expenses	26,961,891	26,164,029	16,177	26,180,206
5	Depreciation Expense	18,849,735	21,511,931		21,511,931
6	Taxes Other than Income	4,830,375	6,566,445	6,458	6,572,903
7					
8	State & Federal Income Taxes	8,353,921	7,187,416	826,944	8,014,360
9	Total Operating Expenses	$ 124,541,937	$ 140,138,939	$ 849,578	$ 140,988,517
10	Operating Income	$ 32,171,310	$ 30,590,337	$ 2,385,737	$ 32,976,074
11	Rate Base	358,900,188	427,151,221		427,151,221
12	Rate of Return	8.96%	7.16%		7.72%

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Adjusted Operating Income Statement
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__X____Base Period___X___Forecasted Period — FR 16(8)(c)2
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Major Group Classification	Base Year Revenue & Expenses	Utility budget Adjustments	Sched Ref.	SSU Billing Adjs	Sched Ref.	Forecasted Revenue & Expenses	Ratemaking Adjustments	Sched Ref.	Test Year Rev. & Exp. Adjusted
1	Operating Revenue	$ 156,713,247	$ 14,016,029	D-1			$170,729,276	$ -		$ 170,729,276
2										
3	Operating Expenses									
4	Purchased Gas Cost	65,546,014	13,163,103	D-1			78,709,117	-		78,709,117
5	Production O&M Expense	-	-	D-1			-	-		-
6	Storage O&M Expense	402,609	2,373	D-1			404,981	-		404,981
7	Transmission O&M Expense	267,885	2,788	D-1			270,673	-		270,673
8	Distribution O&M Expense	6,643,818	131,726	D-1		*	6,775,544	-		6,775,544
9	Customer Accting. & Collection	3,218,091	158,675	D-1		*	3,376,766	-		3,376,766
10	Customer Service & Information	134,412	(799)	D-1		*	133,614	-		133,614
11	Sales Expense	410,953	32,782	D-1		*	443,735	(86,665)	F-4	357,069
12	Admin. & General Expense	15,884,124	274,798	D-1		*	16,158,922	(1,313,539)	F-6,F-8,F-9, F-10	14,845,383
13	Depreciation Expense	18,849,735	2,662,197	D-1			21,511,931	-		21,511,931
14	Taxes - Other	4,830,375	1,736,070	D-1			6,566,445	-		6,566,445
15	Income Taxes	8,353,921	(1,166,505)				7,187,416	-		7,187,416
16										
17										
18	Total Operating Expenses	$ 124,541,937	$ 16,997,206		$ -		$141,539,143	$(1,400,204)		$ 140,138,939
19										
20	Net Operating Income	$ 32,171,310	$ (2,981,177)		$ -		$ 29,190,133	$ 1,400,204		$ 30,590,337

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Revenue and Expenses by FERC Account
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period — FR 16(8)(c)2.1
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.1 B
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Account No. (s)	Account Title	Unadjusted Total Utility
			(1)
1		O P E R A T I N G R E V E N U E	
2		Sales of Gas	
3	4800	Residential	$ 92,003,988
4	4805	Unbilled Residential	(4,036,098)
5	4811	Commercial	38,443,048
6	4812	Industrial	6,816,386
7	4815	Unbilled Commercial	(1,524,311)
8	4816	Unbilled Industrial	(99,395)
9	4820	Other - Public Authority	6,397,243
10	4825	Unbilled Public Authority	(329,425)
11		Total Sales of Gas	$ 137,671,435
12			
13		Other Operating Income	
14	4870	Forfeited Discounts	$ 1,231,452
15	4880	Misc. Service Revenues	805,992
16	4893	Revenue From Transportation of Gas of Others	15,830,894
17	4950	Other Gas Revenue	1,173,474
18		Total Other Operating Income	$ 19,041,812
19			
20		T O T A L O P E R A T I N G R E V E N U E	$ 156,713,247
21			
22		O P E R A T I N G E X P E N S E S	
23		Production Expense - Operation	
24	7560	Ng. Field Meas. & Reg. Station	-
25	7590	Production and gathering-Other	-
26		Total Production Expense - Operation	$ -
27			
28		Production Expense - Maintenance	
29	7610	Ng Main. Supervision & Engineering	$ -
30			$ -
31		Natural Gas Storage Expense - Operation	
32	8140	Operation Supervision & Engineering	$ -
33	8150	Maps and Records	-
34	8160	Wells Expense	128,970

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Revenue and Expenses by FERC Account
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period — FR 16(8)(c)2.1
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.1 B
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Account No. (s)	Account Title		Unadjusted Total Utility
				(1)
35	8170	Lines Expense		35,012
36	8180	Compressor Station Expense		34,838
37	8190	Compressor Station Expense Fuel & Power		1,123
38	8200	Measuring & Regulating Station Expense		3,667
39	8210	Purification		25,635
40	8240	Other		-
41	8250	Storage Well Royalties		13,498
42		Total Nat. Gas Storage Expense - Operation	$	242,743
43				
44		Natural Gas Storage Expense - Maintenance		
45	8310	Structure & Improvements	$	15,145
46	8320	Reservoirs & Wells		-
47	8340	Compressor Station Equip.		11,248
48	8350	Measuring & Regulating Station Equip.		-
49	8360	Purification Equipment		-
50	8370	Maintenance of other equipment		-
51	840/847	Other Storage Exp. - LNG		133,473
52		Total Nat. Gas Storage Expense - Maintenance	$	159,866
53				
54		Transmission Expense - Operation		
55	8500	Operation Supervision & Engineering	$	-
56	8520	Communication system expenses		-
57	8550	Other fuel & power for compression		332
58	8560	Mains Expense		252,640
59	8570	Measuring & Regulating Station Exp.		11,618
60	8590	Other Exp.		-
61	8600	Rents		-
62		Total Transmission Expense - Operation	$	264,589
63				
64		Transmission Expense - Maintenance		
65	8620	Structures and Improvements	$	-
66	8630	Mains		2,900
67	8640	Compressor Station Equipment		-
68	8650	Measuring & Reg Station Equip.		396

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Revenue and Expenses by FERC Account
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period FR 16(8)(c)2.1
Type of Filing:___X____Original________Updated ________Revised Schedule C-2.1 B
Workpaper Reference No(s).____________________ Witness: Waller, Martin

Line No.	Account No. (s)	Account Title	Unadjusted Total Utility
			(1)
69	8670	Other Equipment	-
70		Total Transmission Expense - Maintenance	$ 3,296
71			
72		Purchased Gas Cost - Operation	
73	8001	Intercompany Gas Well-head Purchases	$ -
74	8010	Natural gas field line purchases	73,969
75	8040	Natural Gas City Gate Purchases	51,863,463
76	8045	Transportation to City Gate	-
77	8050	Transmission-Operation supervision and engineering	(16,803)
78	8051	Other Gas Purchases / Gas Cost Adjustments	36,547,884
79	8052	PGA for Commercial	19,322,136
80	8053	PGA for Industrial	4,914,402
81	8054	PGA for Public Authority	3,720,082
82	8057	PGA for Transportation Sales	-
83	8058	Unbilled PGA Costs	1,061,715
84	8059	PGA Offset to Unrecovered Gas Cost	(74,730,668)
85	8060	Exchange Gas	1,872,117
86	8081	Gas Withdrawn From Storage - Debit	10,862,930
87	8082	Gas Delivered to Storage	(17,187,952)
88	8110	Gas used for products extraction-Credit	-
89	8120	Gas Used for Other Utility Operations	(20,205)
90	8130	Gas Used for Other Utility Operations	-
91	8580	Transmission and compression of gas by others	27,262,943
92		Total Purchased Gas Cost	$ 65,546,014
93			
94		Distribution Expenses - Operation	
95	8700	Supervision and Engineering	$ 1,193,065
96	8710	Distribution Load Dispatching	1,103
97	8711	Odorization	2,545
98	8720	Compressor Station Labor & Expenses	-
99	8740	Mains & Services	3,300,059
100	8750	Measuring and Regulating Station Exp. - Gen	478,055
101	8760	Measuring and Regulating Station Exp. - Ind.	30,154
102	8770	Measuring and Regulating Sta. Exp. - City Gate	22,074

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Revenue and Expenses by FERC Account
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period — FR 16(8)(c)2.1
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.1 B
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Account No. (s)	Account Title	Unadjusted Total Utility
			(1)
103	8780	Meters and House Regulator Expense	934,416
104	8790	Customer Installations Expense	4,014
105	8800	Other Expense	149,633
106	8810	Rents	383,108
107		Total Distribution Expenses - Operation	$ 6,498,226
108			
109		Distribution Expenses - Maintenance	
110	8850	Supervision and Engineering	$ 1,623
111	8860	Structures and Improvements	300
112	8870	Mains	29,455
113	8890	Measuring and Regulating Station Exp. - Gen	36
114	8900	Measuring and Regulating Station Exp. - Ind.	8,796
115	8910	Measuring and Regulating Sta. Exp. - City Gate	4,281
116	8920	Services	102
117	8930	Meters and House Regulators	89,917
118	8940	Other Equipment	11,083
119	8950	Maintenance of Other Plant	-
120		Total Distribution Expenses - Maintenance	$ 145,592
121			
122		Customer Accounts Expenses - Operation	
123	9010	Supervision	$ 406
124	9020	Meter Reading Expenses	1,186,802
125	9030	Customer Records & Collections	1,660,972
126	9040	Uncollectible Accounts	369,911
127		Total Customer Accounts Expense	$ 3,218,091
128			
129		Customer Service & Information - Operation	
130	9070	Supervision	$ -
131	9080	Customer Assistance Expenses	-
132	9090	Informational and Instructional Advertising Expenses	134,412
133	9100	Misc Cust Serv & Informational Exp	-
134		Total Customer Accounts Expenses - Operation	$ 134,412
135			
136		Sales Expense	

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Revenue and Expenses by FERC Account
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period — FR 16(8)(c)2.1
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.1 B
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Account No. (s)	Account Title	Unadjusted Total Utility
			(1)
137	9110	Supervision	$ 255,129
138	9120	Demonstrating and Selling Expenses	117,086
139	9130	Advertising Expenses	38,737
140	9160	Miscellaneous Sales Expenses	-
141		Total Sales Expenses	$ 410,953
142			
143		Administrative and General Expenses - Operation	
144	9200	Administrative and General Salaries	$ 141,985
145	9210	Office Supplies and Expenses	1,380
146	9220	Administrative Expense Transferred	13,526,080
147	9230	Outside Services Employed	64,811
148	9240	Property Insurance	88,982
149	9250	Injuries and Damages	18,681
150	9260	Employee Pensions and Benefits	1,947,365
151	9270	Franchise Requirements	6,390
152	9280	Regulatory Commission Expense	-
153	930.2	Miscellaneous General Expense	74,162
154	9310	A&G-Rents	$ 14,287
155		Total Administrative and General Exp. - Operation	$ 15,884,124
156			
157		Administrative and General Expense - Maintenance	
158	9320	Maintenance of general plant	$ -
159		Total Administrative and Gen. Exp. - Maintenance	$ -
160			
161		Total Operation and Maintenance Expense	$ 92,507,906
162			
163	403	Depreciation and Amortization	$ 18,849,735
164	4081	Taxes Other than Income Taxes	4,830,375
165	4091-4101	Provision for Federal & State Income Taxes	8,353,921
166			
167		TOTAL OPERATING EXPENSE (incl Gas Cost)	$ 124,541,937
168			
169		NET OPERATING INCOME	$ 32,171,310

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Revenue and Expenses by FERC Account
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period FR 16(8)(c)2.1
Type of Filing:___X____Original________Updated ________Revised Schedule C-2.1 F
Workpaper Reference No(s).____________________ Witness: Waller, Martin

Line No.	Account No. (s)	Account Title	Unadjusted Total Utility
			(1)
1		OPERATING REVENUE	
2		Sales of Gas	
3	4800	Residential	$ 98,377,919
4	4811	Commercial	40,637,064
5	4812	Industrial	5,286,755
6	4820	Other - Public Authority	6,847,372
7		Total Sales of Gas	$ 151,149,111
8			
9		Other Operating Income	
10	4870	Forfeited Discounts	$ 1,297,964
11	4880	Misc. Service Revenues	806,054
12	4893-4896	Revenue From Transportation of Gas of Others	15,202,087
13	4950	Other Gas Revenue	2,274,060
14		Total Other Operating Income	$ 19,580,165
15			
16		TOTAL OPERATING REVENUE	$ 170,729,276
17			
18		OPERATING EXPENSES	
19		Production Expense - Operation	
20	7560	Ng. Field Meas. & Reg. Station	-
21	7590	Production and gathering-Other	0
22		Total Production Expense - Operation	$ -
23			
24		Production Expense - Maintenance	
25	7610	Ng. Main. Supervision & Engineering	$ -
26			$ -
27		Natural Gas Storage Expense - Operation	
28	8140	Operation Supervision & Engineering	$ -
29	8150	Maps and Records	-
30	8160	Wells Expense	135,950
31	8170	Lines Expense	35,014
32	8180	Compressor Station Expense	35,633
33	8190	Compressor Station Expense Fuel & Power	1,003
34	8200	Measuring & Regulating Station Expense	3,485
35	8210	Purification	25,974
36	8240	Other	-
37	8250	Storage Well Royalties	9,388
38		Total Nat. Gas Storage Expense - Operation	$ 246,447

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Revenue and Expenses by FERC Account
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period FR 16(8)(c)2.1
Type of Filing:___X____Original________Updated ________Revised Schedule C-2.1 F
Workpaper Reference No(s).____________________ Witness: Waller, Martin

Line No.	Account No. (s)	Account Title	Unadjusted Total Utility
			(1)
39			
40		Natural Gas Storage Expense - Maintenance	
41	8310	Structure & Improvements	$ 16,248
42	8320	Reservoirs & Wells	-
43	8340	Compressor Station Equip.	11,889
44	8350	Measuring & Regulating Station Equip.	-
45	8360	Purification Equipment	-
46	8370	Maintenance of other equipment	-
47	841/847	Other Storage Exp. - LNG	130,397
48		Total Nat. Gas Storage Expense - Maintenance	$ 158,534
49			
50		Transmission Expense - Operation	
51	8500	Operation Supervision & Engineering	$ -
52	8520	Communication system expenses	-
53	8550	Other Fuel & Power for Compression	297
54	8560	Mains Expense	255,790
55	8570	Measuring & Regulating Station Exp.	11,082
56	8590	Other Exp.	0
57	8600	Rents	0
58		Total Transmission Expense - Operation	$ 267,169
59			
60		Transmission Expense - Maintenance	
61	8620	Structures and Improvements	$ -
62	8630	Mains	3,091
63	8640	Compressor Station Equipment	-
64	8650	Measuring & Reg Station Equip.	412
65	8670	Other Equipment	-
66		Total Transmission Expense - Maintenance	$ 3,504
67			
68		Purchased Gas Cost - Operation	
69	8001	Intercompany Gas Well-head Purchases	$ -
70	8010	Natural gas field line purchases	81,272
71	8040	Natural Gas City Gate Purchases	56,991,988
72	8045	Transportation to City Gate	0
73	8050	Transmission-Operation supervision and engineering	(17,552)
74	8051	Other Gas Purchases / Gas Cost Adjustments	45,436,442
75	8052	PGA for Commercial	23,451,445
76	8053	PGA for Industrial	6,473,398
77	8054	PGA for Public Authority	4,552,018
78	8057	PGA for Transportation Sales	0
79	8058	Unbilled PGA Costs	(1,182,255)
80	8059	PGA Offset to Unrecovered Gas Cost	(92,651,831)
81	8060	Exchange Gas	6,250,360
82	8081	Gas Withdrawn From Storage - Debit	15,070,639
83	8082	Gas Delivered to Storage	(17,546,751)
84	8110	Gas used for products extraction-Credit	0
85	8120	Gas Used for Other Utility Operations	(21,930)
86	8130	Other Gas Supply Expenses	0
87	8580	Transmission and compression of gas by others	31,821,875
88		Total Purchased Gas Cost	$ 78,709,117

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Revenue and Expenses by FERC Account
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period FR 16(8)(c)2.1
Type of Filing:___X____Original________Updated ________Revised Schedule C-2.1 F
Workpaper Reference No(s).____________________ Witness: Waller, Martin

Line No.	Account No. (s)	Account Title	Unadjusted Total Utility (1)
89			
90		Distribution Expenses - Operation	
91	8700	Supervision and Engineering	$ 1,207,940
92	8710	Distribution Load Dispatching	986
93	8711	Odorization	2,670
94	8720	Compressor Station Labor & Expenses	0
95	8740	Mains & Services	3,444,978
96	8750	Measuring and Regulating Station Exp. - Gen	484,494
97	8760	Measuring and Regulating Station Exp. - Ind.	30,793
98	8770	Measuring and Regulating Sta. Exp. - City Gate	22,313
99	8780	Meters and House Regulator Expense	940,679
100	8790	Customer Installations Expense	4,184
101	8800	Other Expense	145,791
102	8810	Rents	344,255
103		Total Distribution Expenses - Operation	$ 6,629,083
104			
105		Distribution Expenses - Maintenance	
106	8850	Supervision and Engineering	$ 1,399
107	8860	Structures and Improvements	309
108	8870	Mains	30,023
109	8890	Measuring and Regulating Station Exp. - Gen	38
110	8900	Measuring and Regulating Station Exp. - Ind.	9,170
111	8910	Measuring and Regulating Sta. Exp. - City Gate	4,225
112	8920	Services	106
113	8930	Meters and House Regulators	90,413
114	8940	Other Equipment	10,779
115	8950	Maintenance of Other Plant	0
116		Total Distribution Expenses - Maintenance	$ 146,461
117			
118		Customer Accounts Expenses - Operation	
119	9010	Supervision	$ 421
120	9020	Meter Reading Expenses	1,251,833
121	9030	Customer Records & Collections	1,762,399
122	9040	Uncollectible Accounts	362,112
123		Total Customer Accounts Expense	$ 3,376,766
124			
125		Customer Service & Information - Operation	
126	9070	Supervision	$ -
127	9080	Customer Assistance Expenses	0
128	9090	Informational and Instructional Advertising Expenses	133,614
129	9100	Misc Cust Serv & Informational Exp	0
130		Total Customer Accounts Expenses - Operation	$ 133,614
131			
132		Sales Expense	
133	9110	Supervision	$ 266,962
134	9120	Demonstrating and Selling Expenses	131,290
135	9130	Advertising Expenses	45,483
136	9160	Miscellaneous Sales Expenses	0
137		Total Sales Expenses	$ 443,735
138			

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Operating Revenue and Expenses by FERC Account
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period — FR 16(8)(c)2.1
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.1 F
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Account No. (s)	Account Title	Unadjusted Total Utility (1)
139		Administrative and General Expenses - Operation	
140	9200	Administrative and General Salaries	$ 142,768
141	9210	Office Supplies and Expenses	3,249
142	9220	Administrative Expense Transferred	14,012,401
143	9230	Outside Services Employed	69,850
144	9240	Property Insurance	5,560
145	9250	Injuries and Damages	17,941
146	9260	Employee Pensions and Benefits	1,843,199
147	9270	Franchise Requirements	1,483
148	9280	Regulatory Commission Expense	0
149	930.2	Miscellaneous General Expense	49,701
150	9310	A&G-Rents	12,771
151		Total Administrative and General Exp. - Operation	$ 16,158,922
152			
153		Administrative and General Expense - Maintenance	
154	9320	Maintenance of General Plant	0
155		Total Administrative and Gen. Exp. - Maintenance	$ -
156			
157		Total Operation and Maintenance Expense	$ 106,273,351
158			
159	403-406	Depreciation and Amortization	$ 21,511,931
160	4081	Taxes Other than Income Taxes	6,566,445
161	4091	Provision for Federal & State Income Taxes	7,187,416
162			
163		T O T A L O P E R A T I N G E X P E N S E	$ 141,539,143
164			
165		N E T O P E R A T I N G I N C O M E	$ 29,190,133

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period — FR 16(8)(c)2.2
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.2
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Acct No.	Account Discription	actual Jan-17	actual Feb-17	actual Mar-17	actual Apr-17	actual May-17	actual Jun-17	Forecasted Jul-17	Forecasted Aug-17	Forecasted Sep-17	Budgeted Oct-17	Budgeted Nov-17	Budgeted Dec-17	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
1	4091-4101	Provision for income taxes	0	0	0	0		0	1,392,320	1,392,320	1,392,320	1,392,320	1,392,320	1,392,320	8,353,921
2															
3	4030	Depreciation Expense	1,539,524	1,543,651	1,552,617	1,562,448	1,569,260	1,584,165	1,559,465	1,604,120	1,642,424	1,557,417	1,565,605	1,569,038	18,849,735
4	4060	Amortization of gas plant acquisition adjustments	4,132	4,132	4,132	4,132	4,132	4,132	0	0	0	0	0	0	24,791
5	4081	Taxes other than income taxes, utility operating inco	430,926	346,632	374,617	250,216	471,465	389,331	368,367	325,373	400,973	486,263	520,531	465,682	4,830,375
6	4800	Residential sales	(14,513,203)	(12,401,756)	(9,837,265)	(7,970,175)	(5,001,330)	(4,280,264)	(3,977,683)	(3,985,744)	(3,950,372)	(5,098,884)	(8,426,387)	(12,560,924)	(92,003,988)
7	4805	Unbilled Residential Revenue	(469,640)	1,575,634	970,698	1,251,101	548,262	160,043							4,036,098
8	4811	Commercial Revenue	(6,015,710)	(4,997,094)	(3,975,391)	(3,087,843)	(2,175,017)	(1,875,289)	(1,891,638)	(1,890,232)	(1,870,520)	(2,242,327)	(3,481,019)	(4,940,967)	(38,443,048)
9	4812	Industrial Revenue	(879,115)	(863,109)	(978,760)	(585,027)	(578,725)	(688,370)	(390,261)	(292,706)	(327,152)	(257,902)	(308,686)	(666,572)	(6,816,386)
10	4815	Unbilled Comm Revenue	(312,723)	758,593	351,238	564,894	122,836	39,474							1,524,311
11	4816	Unbilled Industrial Revenue	(193,638)	(209,628)	243,165	33,560	(179,298)	405,234							99,395
12	4820	Other Sales to Public Authorities	(1,046,459)	(877,900)	(710,313)	(551,379)	(335,451)	(257,582)	(248,275)	(257,557)	(247,986)	(345,624)	(607,277)	(911,441)	(6,397,243)
13	4825	Unbilled Public Authority Revenue	(27,855)	138,141	61,310	110,081	34,779	12,969							329,425
14	4870	Forfeited discounts	(164,679)	(178,264)	(212,874)	(110,474)	(89,244)	(73,990)	(59,150)	(54,439)	(54,579)	(54,004)	(68,404)	(111,351)	(1,231,452)
15	4880	Miscellaneous service revenues	(58,143)	(54,428)	(74,827)	(49,906)	(53,615)	(55,356)	(45,327)	(57,173)	(55,395)	(88,176)	(126,545)	(87,101)	(805,992)
16	4893	Revenue-Transportation Distribution	(1,601,632)	(1,516,343)	(1,462,849)	(1,288,495)	(1,321,435)	(1,287,338)	(1,031,165)	(1,125,835)	(1,137,039)	(1,217,907)	(1,335,583)	(1,505,274)	(15,830,894)
17	4950	Other Gas Revenue	0	0	0	0	0	0	(183,287)	(180,802)	(183,628)	(198,677)	(196,959)	(230,122)	(1,173,474)
18	7560	Field measuring and regulating station expenses	0	0	0	0	0	0	-	-	-	-	-	-	0
19	7590	Production and gathering-Other	0	0	0	0	0	0	-	-	-	-	-	-	0
20	8001	Intercompany Gas Well-head Purchases	0	0	0	0	0	0	0	0	0	0	0	0	0
21	8010	Natural gas field line purchases	5,289	4,114	3,199	3,575	6,495	4,693	5,900	14,766	8,198	6,511	7,310	3,918	73,969
22	8040	Natural gas city gate purchases	5,595,688	4,352,529	337,619	768,369	5,923,129	4,115,123	4,142,482	6,203,886	4,932,799	6,045,127	8,174,615	1,272,096	51,863,463
23	8050	Other purchases	(886)	(311)	(228)	(69)	(1,818)	(783)	(799)	(951)	(785)	(4,437)	(683)	(5,052)	(16,803)
24	8051	PGA for Residential	8,024,574	6,235,593	4,547,479	3,361,822	1,534,503	1,025,911	805,444	824,795	772,208	1,045,039	2,609,623	5,760,892	36,547,884
25	8052	PGA for Commercial	3,677,986	2,844,533	2,136,551	1,547,232	990,664	790,859	778,887	815,143	827,697	1,149,290	1,306,034	2,457,260	19,322,136
26	8053	PGA for Industrial	672,135	664,048	769,253	453,327	452,238	558,552	287,356	242,254	235,833	208,565		370,839	4,914,402
27	8054	PGA for Public Authorities	701,686	553,678	435,084	330,097	195,998	141,164	107,805	130,175	144,256	164,351	304,318	511,471	3,720,082
28	8058	Unbilled PGA Cost	323,891	(1,619,983)	(833,284)	(1,158,008)	(390,752)	(478,920)	69,058	(57,345)	(808)	613,560	2,209,350	2,384,955	1,061,715
29	8059	PGA Offset to Unrecovered Gas Cost	(11,327,381)	(12,335,696)	(8,878,999)	(7,684,524)	(4,221,492)	(3,604,184)	(2,987,148)	(4,898,780)	(3,004,681)	(3,823,107)	(5,832,416)	(6,132,259)	(74,730,668)
30	8060	Exchange gas	994,734	3,043,458	3,568,544	2,130,911	(1,903,717)	(551,573)	(1,322,055)	(606,581)	(1,597,141)	(1,628,393)	(1,753,460)	1,497,389	1,872,117
31	8081	Gas withdrawn from storage-Debit	2,255,745	2,376,726	2,699,948	2,442,279	9,858	10,009	0	0	0	0	0	1,068,366	10,862,930
32	8082	Gas delivered to storage-Credit	(22,775)	(5,574)	(10,705)	(98,792)	(1,863,095)	(1,635,911)	(1,848,190)	(3,003,139)	(2,164,048)	(2,727,391)	(3,806,303)	(2,029)	(17,187,952)
33	8120	Gas used for other utility operations-Credit	(5,263)	(1,034)	1,053	(2,338)	(107)	(1,520)	1,191	(2,344)	755	95	(1,990)	(8,702)	(20,205)
34	8580	Transmission and compression of gas by others	2,499,585	2,564,754	2,280,623	2,438,251	2,050,640	1,662,627	2,009,809	2,290,799	1,825,658	2,131,692	3,210,936	2,297,571	27,262,943
35	8140	Storage-Operation supervision and engineering	0	0	0	0	0	0	-	-	-	-	-	-	0
36	8160	Wells expenses	20,628	30,052	6,702	9,490	2,729	1,519	9,672	9,764	9,609	10,150	10,595	8,060	128,970
37	8170	Lines expenses	4,630	4,715	4,105	2,533	1,936	(164)	2,842	3,046	2,794	2,880	2,904	2,791	35,012
38	8180	Compressor station expenses	4,238	2,653	292	2,998	3,433	3,947	3,291	3,257	2,813	2,495	2,648	2,772	34,838
39	8190	Compressor station fuel and power	104	112	109	0	215	68	90	90	86	81	89	78	1,123
40	8200	Storage-Measuring and regulating station expenses	701	(62)	541	139	507	93	294	307	286	286	300	275	3,667
41	8210	Storage-Purification expenses	6,913	1,672	1,080	1,727	1,414	157	2,444	2,399	2,067	1,801	1,931	2,030	25,635
42	8240	Storage-Other expenses	0	0	0	0	0	0	-	-	-	-	-	-	0
43	8250	Storage well royalties	1,750	1,282	1,435	610	380	206	1,881	1,884	1,845	735	802	688	13,498
44	8310	Storage-Maintenance of structures and improvemen	421	966	436	1,452	2,170	3,133	1,142	1,106	1,103	1,140	1,219	857	15,145
45	8340	Maintenance of compressor station equipment	157	6,645	(629)	0	16	0	877	869	841	859	907	706	11,248
46	8350	Maintenance of measuring and regulating station eq	0	0	0	0	0	0	-	-	-	-	-	-	0
47	8360	Processing-Maintenance of purification equipment	0	0	0	0	0	0	-	-	-	-	-	-	0
48	8370	Maintenance of other equipment	0	0	0	0	0	0	-	-	-	-	-	-	0
49	8410	Other storage expenses-Operation labor and expen	17,878	2,112	9,049	11,668	15,077	13,540	10,403	11,260	10,370	10,847	10,844	10,424	133,473
50	8520	Communication system expenses	0	0	0	0	0	0	-	-	-	-	-	-	0
51	8550	Other fuel and power for Compression	31	31	30	30	30	28	27	27	25	24	26	23	332
52	8560	Mains expenses	9,552	31,997	28,224	15,086	22,350	21,291	21,247	22,067	20,182	20,148	20,531	19,963	252,640
53	8570	Transmission-Measuring and regulating station expe	842	707	868	932	1,815	915	998	1,002	911	847	913	867	11,618
54	8630	Transmission-Maintenance of mains	(676)	0	0	2,122	(144)	338	207	207	211	229	240	166	2,900
55	8640	Transmission-Maintenance of compressor sta equip	0	0	0	0	0	0	-	-	-	-	-	-	0

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).____________________

FR 16(8)(c)2.2
Schedule C-2.2
Witness: Waller, Martin

Line No.	Acct No.	Account Discription	actual Jan-17	actual Feb-17	actual Mar-17	actual Apr-17	actual May-17	actual Jun-17	Forecasted Jul-17	Forecasted Aug-17	Forecasted Sep-17	Budgeted Oct-17	Budgeted Nov-17	Budgeted Dec-17	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
56	8650	Transmission-Maintenance of measuring and regula	0	0	0	186	11	0	44	40	32	24	27	32	396
57	8700	Distribution-Operation supervision and engineering	121,488	66,762	96,507	95,123	107,406	97,613	104,735	107,296	107,652	95,062	98,127	95,293	1,193,065
58	8710	Distribution load dispatching	50	48	59	27	61	352	88	89	84	80	88	77	1,103
59	8711	Odorization	59	0	0	1,204	0	0	276	256	210	156	177	206	2,545
60	8720	Distribution-Compressor station labor and expenses	0	0	0	0	0	0	-	-	-	-	-	-	0
61	8740	Mains and Services Expenses	226,559	356,356	331,227	248,101	307,976	220,157	279,763	281,764	266,055	262,780	266,350	252,970	3,300,059
62	8750	Distribution-Measuring and regulating station expen:	61,862	19,205	28,782	39,929	50,495	41,511	39,810	42,028	38,315	38,733	39,245	38,140	478,055
63	8760	Distribution-Measuring and regulating station expen:	2,604	3,728	2,853	3,280	2,719	(32)	2,781	2,795	2,438	2,232	2,334	2,422	30,154
64	8770	Distribution-Measuring and regulating station expen:	487	1,111	1,391	97	511	7,619	2,287	2,139	1,784	1,372	1,557	1,720	22,074
65	8780	Meter and house regulator expenses	98,618	50,225	78,582	75,637	88,113	80,622	75,744	81,468	74,854	77,591	77,860	75,102	934,416
66	8790	Customer installations expenses	27	1,976	0	0	0	0	442	407	329	239	273	322	4,014
67	8800	Distribution-Other expenses	4,559	9,769	25,807	9,218	12,897	11,840	13,061	13,994	13,046	11,953	11,929	11,560	149,633
68	8810	Distribution-Rents	37,613	31,577	33,008	30,694	34,123	40,751	30,538	30,676	29,217	27,789	30,544	26,577	383,108
69	8850	Distribution-Maintenance supervision and engineerii	312	168	21	0	238	174	107	105	96	135	133	133	1,623
70	8860	Distribution-Maintenance of structures and improver	0	13	48	22	0	68	32	30	24	18	21	24	300
71	8870	Distribution-Maint of mains	2,052	1,615	2,274	1,692	2,720	4,890	2,339	2,480	2,313	2,411	2,444	2,225	29,455
72	8890	Maintenance of measuring and regulating station eq	0	0	0	18	0	0	4	4	3	2	2	3	36
73	8900	Maintenance of measuring and regulating station eq	4,090	299	0	0	0	0	968	892	722	523	598	705	8,796
74	8910	Maintenance of measuring and regulating station eq	114	1,285	53	170	0	583	423	400	342	275	310	326	4,281
75	8920	Maintenance of services	0	0	0	0	51	0	11	10	8	6	7	8	102
76	8930	Maintenance of meters and house regulators	3,598	17,018	12,171	1,369	1,323	9,942	7,219	7,819	7,189	7,522	7,522	7,226	89,917
77	8940	Distribution-Maintenance of other equipment	876	813	1,735	992	526	239	1,379	1,292	1,097	614	701	819	11,083
78	9010	Customer accounts-Operation supervision	0	49	(18)	172	0	0	43	40	33	26	29	33	406
79	9020	Customer accounts-Meter reading expenses	110,785	105,089	126,664	97,026	108,759	104,421	86,779	88,256	88,537	94,815	99,284	76,385	1,186,802
80	9030	Customer accounts-Customer records and collectioi	23,155	39,749	501,984	102,686	138,342	123,055	120,508	121,314	122,157	131,566	137,492	98,963	1,660,972
81	9040	Customer accounts-Uncollectible accounts	49,058	39,838	32,057	27,877	23,175	21,912	21,694	21,263	21,604	29,384	35,250	46,799	369,911
82	9090	Customer service-Operating informational and instru	10,133	9,038	11,220	9,708	12,366	12,062	12,032	12,762	12,253	11,131	11,031	10,676	134,412
83	9100	Customer service-Miscellaneous customer service	0	0	0	0	0	0	-	-	-	-	-	-	0
84	9110	Sales-Supervision	22,301	16,763	23,243	19,799	21,408	21,585	20,675	21,999	21,360	22,375	22,088	21,533	255,129
85	9120	Sales-Demonstrating and selling expenses	16,390	8,111	12,044	10,478	6,937	6,607	7,021	9,167	10,818	12,910	6,570	10,033	117,086
86	9130	Sales-Advertising expenses	1,111	7,084	2,366	2,627	3,105	3,025	2,446	3,237	3,877	4,172	2,318	3,367	38,737
87	9200	A&G-Administrative & general salaries	13,291	9,993	13,407	10,433	12,197	12,402	11,399	12,347	11,353	11,877	11,877	11,410	141,985
88	9210	A&G-Office supplies & expense	213	(50)	141	398	623	376	(413)	(366)	(316)	309	195	270	1,380
89	9220	A&G-Administrative expense transferred-Credit	1,165,024	1,094,817	946,832	1,026,190	1,198,876	640,902	1,221,425	1,112,542	1,754,788	1,108,456	1,140,910	1,115,318	13,526,080
90	9230	A&G-Outside services employed	7,268	5,263	0	10,119	9,741	5,020	4,524	4,436	4,625	5,046	5,349	3,419	64,811
91	9240	A&G-Property insurance	13,991	13,922	14,167	13,939	14,231	13,802	1,439	946	1,361	394	394	394	88,982
92	9250	A&G-Injuries & damages	1,848	784	2,141	5,524	488	314	1,117	1,138	1,282	1,404	1,574	1,068	18,681
93	9260	A&G-Employee pensions and benefits	174,539	152,250	185,191	160,524	188,457	160,943	161,709	175,132	163,500	142,796	145,700	136,625	1,947,365
94	9270	A&G-Franchise requirements	0	0	842	0	14	0	1,775	1,775	1,775	83	78	48	6,390
95	9280	A&G-Regulatory commission expenses	0	0	0	0	0	0	-	-	-	-	-	-	0
96	9302	Miscellaneous general expenses	12,347	7,382	8,449	4,277	14,490	4,482	1,736	2,012	1,724	10,935	684	5,643	74,162
97	9310	A&G-Rents	1,283	1,283	1,283	1,283	1,305	1,305	1,144	1,148	1,089	1,032	1,139	994	14,287
98	9320	A&G-Maintenance of general plant	0	0	0	0	0	0	-	-	-	-	-	-	0
99															
100		Operating (Income)Loss*	($7,658,332)	($5,898,687)	($4,089,591)	($3,275,127)	($1,785,228)	($2,193,180)	(1,554,695)	($1,739,900)	($982,556)	($2,108,170)	($3,821,226)	($5,393,749)	($32,146,519)

*Note: Debits are shown as positive, and credits are shown as negatives. Includes the Shared Services allocation.
**Note: Provision for Income Taxes is not a component of Operating Income but is included on this schedule to develop the 12 month total for use elsewhere in the model

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account, **Div 002 Only**
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period — FR 16(8)(c)2.2
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.2
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Acct No.	Account Discription	actual Jan-17	actual Mar-17	actual Mar-17	actual Apr-17	actual May-17	actual Jun-17	Forecasted Jul-17	Forecasted Aug-17	Forecasted Sep-17	Budgeted Oct-17	Budgeted Nov-17	Budgeted Dec-17	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
1	4030	Depreciation Expense	0	0	0	(0)	0	(0)	0	0	0	0	0	0	(0)
2	4081	Taxes other than income taxes, utility operating	0	0	0	(2,327,847)	2,327,847	180,544	0	0	0	0	0	0	180,544
	8210	Storage-Purification expenses	0	1,500	0	0	0	0	424	412	477	471	415	452	4,150
3	8560	Mains expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
4	8700	Distribution-Operation supervision and engineer	281	365	156	156	156	616	517	507	509	514	507	507	4,790
5	8740	Mains and Services Expenses	1,954	(7,921)	4,035	4,414	17	10,987	5,379	5,378	5,384	4,744	4,744	4,744	43,861
6	8780	Meter and house regulator expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
7	8800	Distribution-Other expenses	90	7	0	0	0	0	18	17	236	19	19	20	426
8	8900	Maintenance of measuring and regulating statioı	0	0	248	0	0	0	51	51	50	52	52	52	557
9	9010	Customer accounts-Operation supervision	0	0	0	4,879	0	0	1,357	1,300	1,501	1,489	1,319	1,434	13,279
10	9030	Customer accounts-Customer records and colle	123,042	78,423	(46,798)	5,338	4,231	5,819	24,390	26,732	24,568	26,940	26,811	25,705	325,201
11	9100	Customer service-Miscellaneous customer servi	10,825	0	144	0	0	0	2,090	1,986	26,396	2,142	2,144	2,252	47,978
12	9120	Sales-Demonstrating and selling expenses	0	0	704	0	0	32	173	173	195	214	173	220	1,882
13	9200	A&G-Administrative & general salaries	(538,447)	2,507,034	(5,517,790)	(564,879)	(1,149,809)	(3,208,564)	(1,639,619)	(705,126)	(663,098)	(1,269,482)	(1,302,283)	(1,431,636)	(15,483,699)
14	9210	A&G-Office supplies & expense	1,879,092	1,803,283	1,780,994	1,994,426	2,051,435	1,876,271	2,607,274	2,449,388	4,656,067	2,947,347	2,478,371	2,661,407	29,185,355
15	9220	A&G-Administrative expense transferred-Credit	(9,503,163)	(10,347,931)	(8,779,191)	(8,550,668)	(11,459,071)	(3,001,890)	(9,254,552)	(7,991,396)	(20,713,014)	(8,551,321)	(8,530,737)	(8,603,954)	(115,286,889)
16	9230	A&G-Outside services employed	706,893	754,578	661,737	848,669	797,263	865,258	881,858	835,743	11,036,676	904,989	902,452	947,970	20,144,084
17	9240	A&G-Property insurance	49,862	13,328	11,426	11,426	11,426	11,426	20,336	20,275	20,366	22,659	20,757	21,456	234,743
18	9250	A&G-Injuries & damages	1,662,084	1,665,651	(465,577)	1,612,257	1,654,706	648,483	1,715,473	1,716,521	1,715,473	1,729,365	1,744,077	1,743,543	17,142,055
19	9260	A&G-Employee pensions and benefits	4,593,478	2,675,101	6,938,585	3,861,947	7,562,267	1,252,928	4,909,090	2,916,522	2,750,997	3,367,422	3,867,345	3,631,247	48,326,930
20	9301	A&G-General advertising expense	0	0	0	0	0	0	0	0	0	0	0	0	0
21	9302	Miscellaneous general expenses	595,053	449,837	3,023,947	394,237	187,445	257,865	259,226	255,562	595,799	256,850	236,089	475,499	6,987,408
22	9310	A&G-Rents	428,690	449,036	438,477	474,773	453,250	212,237	436,384	436,007	520,141	516,850	516,229	485,351	5,367,424
23	9320	A&G-Maintenance of general plant	16,630	4,065	41,242	22,521	33,626	28,693	30,132	29,950	21,279	38,737	31,517	33,730	332,121
24		Operating (Income)Loss*	$26,363	$46,357	($1,907,660)	($2,208,352)	$2,474,789	($859,294)	$0	$0	$0	($0)	$0	($0)	($2,427,798)
25															
26	9220	A&G-Administrative expense transferred-Credit	(9,503,163)	(10,347,931)	(8,779,191)	(8,550,668)	(11,459,071)	(3,001,890)	(9,254,552)	(7,991,396)	(20,713,014)	(8,551,321)	(8,530,737)	(8,603,954)	(115,286,889)
27		Allocation Factor to Kentucky	5.82%	5.57%	5.80%	5.82%	5.63%	7.10%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.47%
28		Total Allocated Amount	(552,948)	(576,175)	(509,115)	(497,436)	(645,110)	(213,202)	(481,331)	(415,634)	(1,077,287)	(444,756)	(443,685)	(447,493)	(6,304,170)

*Note: Debits are shown as positive, and credits are shown as negatives. Includes the Shared Services allocation.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account, **Div 012 Only**
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period — FR 16(8)(c)2.2
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.2
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Acct No.	Account Discription	actual Jan-17	actual Mar-17	actual Mar-17	actual Apr-17	actual May-17	actual Jun-17	Forecasted Jul-17	Forecasted Aug-17	Forecasted Sep-17	Budgeted Oct-17	Budgeted Nov-17	Budgeted Dec-17	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
1	4030	Depreciation Expense	(0)	(0)	(0)	0	0	0	0	0	0	0	0	0	(0)
2	4081	Taxes other than income taxes, utility operating income	(0)	0	0	0	0	0	0	0	0	0	0	0	0
3	8700	Distribution-Operation supervision and engineering	0	0	0	0	0	0	0	0	0	0	0	0	0
4	8740	Mains and Services Expenses	2,021	1,303	1,296	1,673	1,951	1,636	2,109	2,109	2,105	1,700	1,700	1,700	21,302
5	8800	Distribution-Other expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
6	9010	Customer accounts-Operation supervision	345,789	325,501	371,262	315,777	363,031	355,088	408,249	439,922	403,566	414,715	409,418	393,912	4,546,230
7	9020	Customer accounts-Meter reading expenses	2,827	2,493	3,252	2,427	2,434	2,599	3,130	3,420	3,130	3,207	3,207	3,062	35,188
8	9030	Customer accounts-Customer records and collections expenses	1,596,482	1,399,178	1,619,284	1,395,506	1,567,812	1,532,666	1,809,832	1,919,968	1,758,654	1,850,067	1,798,551	1,719,696	19,967,698
9	9200	A&G-Administrative & general salaries	445,376	369,783	424,768	278,912	332,812	307,847	421,548	460,652	421,548	431,938	431,938	412,432	4,739,554
10	9210	A&G-Office supplies & expense	744,503	642,805	706,185	673,818	750,437	967,834	189,092	187,377	168,380	206,587	197,708	202,318	5,637,044
11	9220	A&G-Administrative expense transferred-Credit	(4,104,410)	(3,692,373)	(4,255,880)	(3,697,685)	(4,192,144)	(4,117,575)	(3,924,137)	(4,180,993)	(3,839,066)	(3,962,203)	(3,907,270)	(3,760,953)	(47,634,690)
12	9230	A&G-Outside services employed	1,420	69,054	109,044	110,712	79,953	53,126	32,098	33,983	25,103	36,386	37,068	36,457	624,402
13	9240	A&G-Property insurance	9,999	9,999	8,106	8,106	8,106	8,106	0	0	0	0	0	0	52,421
14	9250	A&G-Injuries & damages	0	0	0	18	17	17	0	0	0	0	0	0	52
15	9260	A&G-Employee pensions and benefits	801,818	713,977	858,462	672,241	835,509	734,230	925,073	1,004,152	927,170	882,490	893,033	850,376	10,098,532
16	9310	A&G-Rents	153,534	154,543	153,236	153,107	153,618	154,426	133,003	129,406	129,406	135,099	134,643	140,992	1,725,012
17	9320	A&G-Maintenance of general plant	642	3,738	984	323	5	0	4	4	5	15	4	8	5,733
18															
19		Operating (Income)Loss*	($0)	$0	$0	($85,065)	($96,457)	$0	$0	($0)	$0	$0	($0)	($0)	($181,522)
20															
21	9220	A&G-Administrative expense transferred-Credit	(4,104,410)	(3,692,373)	(4,255,880)	(3,697,685)	(4,192,144)	(4,117,575)	(3,924,137)	(4,180,993)	(3,839,066)	(3,962,203)	(3,907,270)	(3,760,953)	(47,634,690)
22		Allocation Factor to Kentucky	4.74%	4.60%	4.65%	4.67%	4.76%	4.50%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.16%
23		Total Allocated Amount	(194,375)	(169,811)	(197,911)	(172,668)	(199,745)	(185,164)	(222,534)	(237,100)	(217,710)	(224,693)	(221,578)	(213,280)	(2,456,569)
24															

*Note: Debits are shown as positive, and credits are shown as negatives. Includes the Shared Services allocation.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account, **Div 091 Only**
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period — FR 16(8)(c)2.2
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.2
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Acct No.	Account Discription	actual Jan-17	actual Feb-17	actual Mar-17	actual Apr-17	actual May-17	actual Jun-17	Forecasted Jul-17	Forecasted Aug-17	Forecasted Sep-17	Budgeted Oct-17	Budgeted Nov-17	Budgeted Dec-17	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
1	4030	Depreciation Expense	(0)	0	0	(0)	(0)	(0)	0	0	0	0	0	0	(0)
2	4060	Amortization of gas plant acquisition adjustments	0	0	0	0	0	0							0
3	4081	Taxes other than income taxes, utility operating i	(0)	0	(0)	240,932	(240,932)	(0)	0	0	0	0	0	0	0
4	8170	Lines expenses	39	41	42	40	41	47	48	47	47	41	41	41	514
5	8180	Compressor station expenses	41	43	44	41	42	49	50	49	49	42	43	43	536
6	8190	Compressor station fuel and power	128	845	139	10	12	1,763	552	547	548	473	481	476	5,975
7	8210	Storage-Purification expenses	542	412	340	176	119	129	327	324	325	281	285	282	3,542
8	8240	Storage-Other expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
9	8250	Storage well royalties	2,034	(180)	1,203	2,817	1,847	709	1,607	1,591	1,594	1,377	1,400	1,385	17,384
	8500	Transmission-Operation supervision and enginee	4	30	0	0	8,378	0	6,320	6,417	6,659	6,696	6,860	6,987	48,352
10	8560	Mains expenses	52	55	(6)	115	189	62	71	89	100	79	84	66	957
11	8570	Transmission-Measuring and regulating station e	78	83	84	80	82	93	95	94	94	81	83	82	1,029
12	8650	Transmission-Maintenance of me - Non-Inventor	0	0	0	5,333	0	0	4,024	4,085	4,239	4,264	4,363	4,449	30,757
13	8700	Distribution-Operation supervision and engineeri	284,070	213,574	232,793	266,021	223,521	229,137	277,586	309,508	315,310	259,992	304,991	263,558	3,180,061
14	8711	Odorization	11,656	3,070	19,230	4,461	0	6,558	2,574	8,732	12,188	8,128	9,599	3,685	89,881
15	8740	Mains and Services Expenses	10,200	9,564	4,078	7,526	11,353	9,117	2,307	2,556	3,556	1,749	2,213	1,845	66,063
16	8750	Distribution-Measuring and regulating station exp	7,224	9,360	10,705	9,178	17,656	10,259	15,440	19,028	19,050	17,436	18,735	15,286	169,355
17	8760	Distribution-Measuring and regulating station exp	5,810	(6,412)	0	0	0	0	(34)	(117)	(163)	(109)	(129)	(49)	(1,204)
18	8770	Distribution-Measuring and regulating station exp	0	0	21	155	198	(20)	20	69	96	64	76	29	707
19	8800	Distribution-Other expenses	7	0	202	0	0	0	44	52	51	42	75	46	518
20	8810	Distribution-Rents	26,102	39,904	7,662	22,114	23,130	22,122	26,876	26,617	26,664	23,040	23,420	23,179	290,828
21	9010	Customer accounts-Operation supervision	2,225	2,129	2,393	2,131	2,375	1,986	2,027	2,227	2,042	1,877	1,950	1,803	25,167
	9020	Customer accounts-Meter reading expenses	0	0	0	0	(90)	0	(68)	(69)	(72)	(72)	(74)	(75)	(519)
22	9030	Customer accounts-Customer records and collec	258,815	236,244	(219,998)	155,499	160,888	154,333	297,002	306,785	309,333	305,778	311,451	313,593	2,589,722
23	9100	Customer service-Miscellaneous customer servic	204	151	130	109	10	0	54	188	150	104	103	93	1,295
24	9110	Sales-Supervision	9,137	9,791	8,776	15,140	7,193	12,704	10,348	11,701	10,923	9,687	12,086	9,618	127,103
25	9120	Sales-Demonstrating and selling expenses	395	0	0	0	0	0	35	123	98	68	67	61	847
26	9130	Sales-Advertising expenses	93	0	0	206	0	0	27	93	74	51	51	46	641
27	9200	A&G-Administrative & general salaries	(4,731)	(25,368)	(6,326)	(4,896)	(26,383)	(5,663)	271	(65)	(69)	9,232	8,908	8,870	(46,219)
28	9210	A&G-Office supplies & expense	0	1,332	8	0	10	0	236	359	332	261	412	270	3,220
29	9220	A&G-Administrative expense transferred-Credit	(831,246)	(694,192)	(477,225)	(708,629)	(704,520)	(482,659)	(1,029,942)	(915,017)	(914,982)	(873,624)	(946,537)	(904,542)	(9,483,115)
30	9230	A&G-Outside services employed	6,769	4,064	5,669	7,466	8,922	12,968	34,605	35,127	36,456	36,673	37,525	38,263	264,508
31	9240	A&G-Property insurance	(1,253)	(959)	(971)	(1,170)	(1,134)	(1,172)	(16,584)	(16,374)	(16,515)	(15,235)	(15,472)	(15,768)	(102,607)
32	9250	A&G-Injuries & damages	21,555	27,631	21,838	21,427	21,367	5,987	58,530	59,766	58,374	50,209	50,712	50,738	448,134
33	9260	A&G-Employee pensions and benefits	190,049	168,789	389,171	194,652	237,295	21,493	285,829	114,742	110,595	145,657	160,395	168,296	2,186,963
34	9302	Miscellaneous general expenses	0	0	0	0	7,500	0	19,726	20,727	12,853	5,657	5,801	7,343	79,607
35	9310	A&G-Rents	0	0	0	0	0	0	0	0	0	0	0	0	0
36															
37		Operating (Income)Loss*	($0)	$0	($0)	$240,932	($240,932)	$0	$0	($0)	($0)	$0	$0	$0	$16,339,856
38															
39	9220	A&G-Administrative expense transferred-Credit	(831,246)	(694,192)	(477,225)	(949,562)	(463,587)	(482,659)	(1,029,942)	(915,017)	(914,982)	(873,624)	(946,537)	(904,542)	(9,483,115)
40		Allocation Factor to Kentucky	50.25%	50.25%	50.25%	37.50%	76.37%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%
41		Total Allocated Amount	(417,701)	(348,831)	(239,806)	(356,086)	(354,021)	(242,536)	(517,560)	(459,808)	(459,791)	(439,008)	(475,648)	(454,545)	(4,765,341)

*Note: Debits are shown as positive, and credits are shown as negatives. Includes the Shared Services allocation.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period — FR 16(8)(c)2.2
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.2
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Acct No.	Account Discription	Forecasted Apr-18	Forecasted May-18	Forecasted Jun-18	Forecasted Jul-18	Forecasted Aug-18	Forecasted Sep-18	Forecasted Oct-18	Forecasted Nov-18	Forecasted Dec-18	Forecasted Jan-19	Forecasted Feb-19	Forecasted Mar-19	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
1	4091	Provision for Federal & State Income Taxes	598,951	598,951	598,951	598,951	598,951	598,951	598,951	598,951	598,951	598,951	598,951	598,951	7,187,416
2															
3	4030	Depreciation Expense	1,792,661	1,792,661	1,792,661	1,792,661	1,792,661	1,792,661	1,792,661	1,792,661	1,792,661	1,792,661	1,792,661	1,792,661	21,511,931
4	4060	Amortization of gas plant acquisition adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0
5	4081	Taxes other than income taxes, utility operating inco	550,587	530,195	568,735	547,943	504,176	580,632	523,734	559,394	502,876	612,476	528,447	557,251	6,566,445
6	4800	Residential sales	(8,441,559)	(5,661,644)	(4,284,846)	(3,943,265)	(3,962,200)	(3,926,560)	(5,042,314)	(8,401,388)	(12,512,630)	(14,998,861)	(15,393,652)	(11,809,002)	(98,377,919)
7	4805	Unbilled Residential Revenue													
8	4811	Commercial Revenue	(3,482,514)	(2,514,683)	(1,993,667)	(1,848,367)	(1,858,090)	(1,838,613)	(2,198,265)	(3,461,162)	(4,909,965)	(5,849,828)	(5,979,382)	(4,702,526)	(40,637,064)
9	4812	Industrial Revenue	(333,870)	(336,504)	(257,495)	(367,460)	(280,518)	(313,149)	(248,256)	(306,059)	(660,778)	(961,517)	(661,148)	(560,002)	(5,286,755)
10	4815	Unbilled Comm Revenue													
11	4816	Unbilled Industrial Revenue													
12	4820	Other Sales to Public Authorities	(574,641)	(377,721)	(265,145)	(241,180)	(252,076)	(242,678)	(337,345)	(603,237)	(905,038)	(1,087,494)	(1,113,252)	(847,566)	(6,847,372)
13	4825	Unbilled Public Authority Revenue													
14	4870	Forfeited discounts	(154,728)	(111,173)	(76,089)	(58,231)	(53,684)	(54,035)	(53,461)	(67,434)	(110,916)	(163,043)	(195,126)	(200,044)	(1,297,964)
15	4880	Miscellaneous service revenues	(49,919)	(53,628)	(55,397)	(45,327)	(57,173)	(55,395)	(88,176)	(126,545)	(87,101)	(58,133)	(54,439)	(74,821)	(806,054)
16	4893	Revenue-Transportation Commercial	(1,186,285)	(1,211,423)	(1,162,348)	(1,031,165)	(1,125,835)	(1,137,039)	(1,217,907)	(1,335,583)	(1,505,274)	(1,523,597)	(1,334,402)	(1,431,230)	(15,202,087)
17	4950	Other Gas Revenue	(174,644)	(170,440)	(149,119)	(183,287)	(180,802)	(183,628)	(198,677)	(196,959)	(230,122)	(221,910)	(186,722)	(197,752)	(2,274,060)
18	7560	Field measuring and regulating station expenses	-	-	-	-	-	-	-	-	-	-	-	-	0
19	7590	Production and gathering-Other	-	-	-	-	-	-	-	-	-	-	-	-	0
20	8001	Intercompany Gas Well-head Purchases	0	0	0	0	0	0	0	0	0	0	0	0	0
21	8010	Natural gas field line purchases	5,286	8,710	5,038	5,573	14,164	7,862	6,254	7,245	3,884	5,663	6,841	4,751	81,272
22	8040	Natural gas city gate purchases	1,136,067	7,942,880	4,418,216	3,912,572	5,951,211	4,730,452	5,807,070	8,102,268	1,260,829	5,991,515	7,237,555	501,353	56,991,988
23	8050	Other purchases	(102)	(2,438)	(841)	(755)	(913)	(752)	(4,263)	(677)	(5,007)	(948)	(517)	(339)	(17,552)
24	8051	PGA for Residential	4,970,598	2,057,759	1,101,473	760,742	791,202	740,531	1,003,885	2,586,528	5,709,864	8,592,215	10,368,788	6,752,855	45,436,442
25	8052	PGA for Commercial	2,287,649	1,328,475	849,109	735,659	781,943	793,744	1,104,031	1,294,476	2,435,494	3,938,158	4,730,000	3,172,707	23,451,445
26	8053	PGA for Industrial	670,264	606,449	599,692	271,408	232,388	226,159	200,352	332,932	367,555	719,680	1,104,205	1,142,315	6,473,398
27	8054	PGA for Public Authorities	488,062	262,832	151,561	101,821	124,873	138,339	157,878	301,625	506,941	751,322	920,678	646,086	4,552,018
28	8058	Unbilled PGA Cost	(1,712,164)	(523,996)	(514,194)	65,226	(55,010)	(775)	589,398	2,189,797	2,363,830	346,802	(2,693,770)	(1,237,399)	(1,182,255)
29	8059	PGA Offset to Unrecovered Gas Cost	(11,361,900)	(5,660,995)	(3,869,645)	(2,821,359)	(4,699,260)	(2,881,427)	(3,672,553)	(5,780,798)	(6,077,942)	(12,128,655)	(20,512,278)	(13,185,019)	(92,651,831)
30	8060	Exchange gas	3,150,644	(2,552,873)	(592,198)	(1,248,680)	(581,875)	(1,531,625)	(1,564,267)	(1,737,941)	1,484,126	1,065,100	5,060,781	5,299,170	6,250,360
31	8081	Gas withdrawn from storage-Debit	3,611,015	13,219	10,746	0	0	0	0	0	1,058,902	2,415,311	3,952,112	4,009,333	15,070,639
32	8082	Gas delivered to storage-Credit	(146,069)	(2,498,399)	(1,756,402)	(1,745,614)	(2,880,826)	(2,075,277)	(2,619,987)	(3,772,616)	(2,011)	(24,386)	(9,269)	(15,897)	(17,546,751)
33	8120	Gas used for other utility operations-Credit	(3,457)	(144)	(1,632)	1,125	(2,248)	724	91	(1,972)	(8,625)	(5,635)	(1,720)	1,563	(21,930)
34	8580	Transmission and compression of gas by others	3,605,059	2,749,895	1,785,085	1,898,264	2,197,498	1,750,768	2,047,746	3,182,519	2,277,220	2,676,400	4,264,773	3,386,649	31,821,875
35	8140	Storage-Operation supervision and engineering	-	-	-	-	-	-	-	-	-	-	-	-	0
36	8160	Wells expenses	10,619	10,127	19,171	17,292	11,608	11,285	10,248	10,693	8,154	9,098	8,338	9,316	135,950
37	8170	Lines expenses	2,789	3,017	2,843	2,937	3,030	2,679	2,960	2,984	2,868	3,115	2,803	2,989	35,014
38	8180	Compressor station expenses	2,667	2,938	3,401	3,490	3,193	2,697	2,537	2,690	2,813	3,158	3,168	2,881	35,633
39	8190	Compressor station fuel and power	81	85	88	80	84	76	81	89	78	87	87	85	1,003
40	8200	Storage-Measuring and regulating station expenses	280	299	291	285	297	266	291	304	280	307	288	297	3,485
41	8210	Storage-Purification expenses	1,942	2,142	2,469	2,526	2,328	1,958	1,826	1,956	2,054	2,315	2,354	2,104	25,974
42	8240	Storage-Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	0
43	8250	Storage well royalties	701	1,241	867	710	723	666	735	802	688	756	756	742	9,388
44	8310	Storage-Maintenance of structures and improvemen	1,248	1,142	2,629	2,319	1,390	1,378	1,140	1,219	857	977	932	1,017	16,248
45	8340	Maintenance of compressor station equipment	917	880	1,696	1,535	1,023	983	865	913	711	801	757	808	11,889
46	8350	Maintenance of measuring and regulating station eq	-	-	-	-	-	-	-	-	-	-	-	-	0
47	8360	Processing-Maintenance of purification equipment	-	-	-	-	-	-	-	-	-	-	-	-	0
48	8370	Maintenance of other equipment	-	-	-	-	-	-	-	-	-	-	-	-	0
49	8410	Other storage expenses-Operation labor and expen	10,409	11,255	10,452	10,821	11,281	10,014	11,169	11,167	10,733	11,592	10,304	11,200	130,397
50	8520	Communication system expenses	-	-	-	-	-	-	-	-	-	-	-	-	0
51	8550	Other fuel and power for Compression	24	25	26	24	25	22	24	26	23	26	26	25	297
52	8560	Mains expenses	20,653	21,413	22,605	22,904	22,071	19,869	20,590	20,973	20,387	22,300	20,710	21,316	255,790
53	8570	Transmission-Measuring and regulating station expe	867	933	993	969	960	839	856	921	875	977	969	923	11,082
54	8630	Transmission-Maintenance of mains	242	221	483	426	262	263	230	241	167	188	170	199	3,091
55	8640	Transmission-Maintenance of compressor sta equip	-	-	-	-	-	-	-	-	-	-	-	-	0
56	8650	Transmission-Maintenance of measuring and regula	29	33	44	46	38	31	24	27	32	37	41	32	412

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period — FR 16(8)(c)2.2
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.2
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Acct No.	Account Discription	Forecasted Apr-18	Forecasted May-18	Forecasted Jun-18	Forecasted Jul-18	Forecasted Aug-18	Forecasted Sep-18	Forecasted Oct-18	Forecasted Nov-18	Forecasted Dec-18	Forecasted Jan-19	Forecasted Feb-19	Forecasted Mar-19	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
57	8700	Distribution-Operation supervision and engineering	92,564	105,005	109,524	95,967	108,636	98,817	96,312	99,378	96,494	102,575	96,667	106,000	1,207,940
58	8710	Distribution load dispatching	80	84	86	79	83	75	80	88	77	86	86	83	986
59	8711	Odorization	186	210	286	287	248	201	156	177	206	236	265	210	2,670
60	8720	Distribution-Compressor station labor and expenses	-	-	-	-	-	-	-	-	-	-	-	-	0
61	8740	Mains and Services Expenses	299,027	275,412	348,782	337,788	293,112	273,823	266,054	269,624	256,116	281,056	266,691	277,494	3,444,978
62	8750	Distribution-Measuring and regulating station expen:	38,048	41,086	41,735	42,468	42,242	37,310	39,740	40,252	39,107	42,540	39,079	40,887	484,494
63	8760	Distribution-Measuring and regulating station expen:	2,344	2,567	2,810	2,906	2,742	2,333	2,277	2,379	2,465	2,747	2,694	2,529	30,793
64	8770	Distribution-Measuring and regulating station expen:	1,602	1,790	2,317	2,340	2,037	1,665	1,372	1,557	1,720	1,988	2,177	1,748	22,313
65	8780	Meter and house regulator expenses	74,919	80,951	76,193	78,630	81,482	72,231	79,816	80,085	77,239	83,572	74,939	80,623	940,679
66	8790	Customer installations expenses	292	331	450	463	389	311	239	273	322	375	418	322	4,184
67	8800	Distribution-Other expenses	11,688	13,200	11,752	12,052	12,662	11,084	12,296	12,272	11,889	13,034	11,534	12,327	145,791
68	8810	Distribution-Rents	27,812	29,146	30,784	27,983	28,877	26,234	27,789	30,544	26,577	29,748	29,746	29,015	344,255
69	8850	Distribution-Maintenance supervision and engineerii	105	99	103	94	99	153	135	133	133	134	106	104	1,399
70	8860	Distribution-Maintenance of structures and improver	22	25	33	34	29	23	18	21	24	28	31	24	309
71	8870	Distribution-Maint of mains	2,378	2,491	2,927	2,882	2,591	2,353	2,470	2,502	2,281	2,489	2,234	2,424	30,023
72	8890	Maintenance of measuring and regulating station eq	3	3	4	4	4	3	2	2	3	3	4	3	38
73	8900	Maintenance of measuring and regulating station eq	639	725	987	1,015	853	682	523	598	705	821	917	705	9,170
74	8910	Maintenance of measuring and regulating station eq	310	343	426	424	380	316	275	310	326	375	404	336	4,225
75	8920	Maintenance of services	7	8	11	12	10	8	6	7	8	10	11	8	106
76	8930	Maintenance of meters and house regulators	7,226	7,818	7,226	7,522	7,818	6,930	7,747	7,747	7,443	8,052	7,138	7,747	90,413
77	8940	Distribution-Maintenance of other equipment	740	958	1,166	1,176	985	792	614	701	819	950	1,059	818	10,779
78	9010	Customer accounts-Operation supervision	30	34	44	45	39	31	26	29	33	38	41	33	421
79	9020	Customer accounts-Meter reading expenses	98,185	94,616	169,882	152,859	107,643	104,495	95,807	100,277	77,339	85,797	77,032	87,902	1,251,833
80	9030	Customer accounts-Customer records and collectioi	137,946	128,420	263,488	233,867	149,630	148,460	132,540	138,466	99,899	111,479	101,274	116,932	1,762,399
81	9040	Customer accounts-Uncollectible accounts	23,762	24,525	22,208	22,173	21,872	21,676	26,561	41,416	48,377	43,272	32,334	33,937	362,112
82	9090	Customer service-Operating informational and instru	10,350	11,829	11,320	10,422	11,551	10,573	11,397	11,296	10,931	11,375	10,621	11,949	133,614
83	9100	Customer service-Miscellaneous customer service	-	-	-	-	-	-	-	-	-	-	-	-	0
84	9110	Sales-Supervision	20,597	21,913	23,031	20,354	23,367	21,662	22,848	22,561	21,987	22,486	21,541	24,614	266,962
85	9120	Sales-Demonstrating and selling expenses	9,559	10,173	11,197	9,411	11,651	12,074	12,910	6,570	10,033	12,221	12,062	13,429	131,290
86	9130	Sales-Advertising expenses	3,475	3,622	4,043	2,838	4,176	4,393	4,172	2,318	3,367	4,041	4,283	4,757	45,483
87	9200	A&G-Administrative & General Salaries	11,410	12,345	11,410	11,877	12,345	10,943	12,234	12,234	11,752	12,715	11,271	12,234	142,768
88	9210	A&G-Office supplies & expense	276	(2)	275	213	339	345	309	195	270	312	335	382	3,249
89	9220	A&G-Administrative expense transferred-Credit	1,130,261	1,341,587	1,109,128	1,227,314	1,073,978	1,082,150	1,128,653	1,161,122	1,134,121	1,216,347	1,110,581	1,297,159	14,012,401
90	9230	A&G-Outside services employed	5,442	4,813	11,892	10,317	5,892	6,037	5,046	5,349	3,419	3,880	3,545	4,218	69,850
91	9240	A&G-Property insurance	394	592	394	532	394	394	394	394	394	887	394	394	5,560
92	9250	A&G-Injuries & damages	1,321	1,247	2,509	2,074	1,371	1,739	1,405	1,574	1,068	1,191	1,139	1,302	17,941
93	9260	A&G-Employee pensions and benefits	134,037	145,519	135,758	137,968	143,860	135,503	170,236	173,140	162,988	175,837	157,329	171,024	1,843,199
94	9270	A&G-Franchise requirements	26	824	200	54	21	43	83	78	48	33	32	42	1,483
95	9280	A&G-Regulatory commission expenses	-	-	-	-	-	-	-	-	-	-	-	-	0
96	9302	Miscellaneous general expenses	332	1,976	1,165	11,798	1,984	385	10,935	684	5,643	8,409	2,803	3,587	49,701
97	9310	A&G-Rents	1,034	1,087	1,119	1,022	1,072	967	1,032	1,139	994	1,112	1,113	1,081	12,771
98	9320	A&G-Maintenance of general plant	-	-	-	-	-	-	-	-	-	-	-	-	0
99		Operating (Income)Loss*	($3,152,062)	($1,959,864)	($1,211,973)	($906,071)	($1,385,622)	($1,328,843)	($1,784,286)	($3,160,430)	($5,083,891)	($5,778,718)	($6,033,202)	($4,592,587)	($29,190,133)

*Note: Debits are shown as positive, and credits are shown as negatives. Includes the Shared Services allocation.

**Note: Provision for Income Taxes is not a component of Operating Income but is included on this schedule to develop the 12 month total for use elsewhere in the model

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account, **Div 002 Only**
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period — FR 16(8)(c)2.2
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.2
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Acct No.	Account Discription	Forecasted Apr-18	Forecasted Jun-18	Forecasted Jun-18	Forecasted Jul-18	Forecasted Aug-18	Forecasted Sep-18	Forecasted Oct-18	Forecasted Nov-18	Forecasted Dec-18	Forecasted Jan-19	Forecasted Feb-19	Forecasted Mar-19	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
1	4030	Depreciation Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
2	4081	Taxes other than income taxes, utility operating	0	0	0	0	0	0	0	0	0	0	0	0	0
3	8210	Storage-Purification expenses	417	437	471	448	416	518	471	415	452	409	415	465	5,335
4	8560	Mains expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
5	8700	Distribution-Operation supervision and engineer	509	540	514	527	508	519	516	509	509	514	503	515	6,183
6	8740	Mains and Services Expenses	4,744	4,744	4,744	4,744	4,744	4,748	4,744	4,744	4,744	4,744	4,744	4,744	56,935
7	8780	Meter and house regulator expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
8	8800	Distribution-Other expenses	21	18	19	19	18	21	19	19	20	19	18	19	230
9	8900	Maintenance of measuring and regulating statioi	52	52	52	52	52	52	52	52	52	52	52	52	623
10	9010	Customer accounts-Operation supervision	1,324	1,418	1,490	1,435	1,314	1,629	1,489	1,319	1,434	1,302	1,320	1,474	16,948
11	9030	Customer accounts-Customer records and colle	25,696	28,212	25,798	26,905	28,277	24,783	27,702	27,576	26,434	28,701	25,172	27,744	323,000
12	9100	Customer service-Miscellaneous customer servi	2,401	2,069	2,138	2,169	2,070	2,357	2,142	2,144	2,252	2,200	2,075	2,144	26,162
13	9120	Sales-Demonstrating and selling	173	193	181	173	173	203	214	173	220	211	189	207	2,309
14	9200	A&G-Administrative & general salaries	(1,510,952)	(2,048,872)	(1,401,000)	(1,599,329)	(963,123)	(1,370,313)	(1,148,299)	(1,180,629)	(1,315,705)	(1,215,814)	(1,397,857)	(1,911,773)	(17,063,667)
15	9210	A&G-Office supplies & expense	2,668,114	2,624,703	2,585,458	2,639,148	2,596,632	2,789,720	2,947,347	2,478,371	2,661,407	2,572,878	2,472,794	2,635,977	31,672,548
16	9220	A&G-Administrative expense transferred-Credit	(8,149,412)	(11,290,391)	(8,345,078)	(9,582,779)	(7,929,889)	(7,842,749)	(8,614,674)	(8,594,391)	(8,663,954)	(8,843,934)	(8,225,188)	(10,839,629)	(106,922,069)
17	9230	A&G-Outside services employed	1,011,978	870,891	898,792	913,195	872,294	991,299	904,989	902,452	947,970	927,072	873,526	901,083	11,015,542
18	9240	A&G-Property insurance	21,413	20,959	21,062	21,269	21,118	21,241	22,659	20,757	21,456	21,070	20,789	20,853	254,646
19	9250	A&G-Injuries & damages	1,744,154	1,745,185	1,744,153	1,744,670	1,745,185	1,743,637	1,728,869	1,743,579	1,743,063	1,744,059	1,742,592	1,744,183	20,913,327
20	9260	A&G-Employee pensions and benefits	3,340,907	7,254,891	3,400,034	5,038,132	2,828,316	2,651,093	3,309,325	3,809,076	3,575,065	3,876,194	3,606,056	3,710,378	46,399,467
21	9301	A&G-General advertising expense	0	0	0	0	0	0	0	0	0	0	0	0	0
22	9302	Miscellaneous general expenses	319,096	268,389	544,004	271,142	274,702	462,707	256,850	236,089	475,499	362,897	356,862	3,185,192	7,013,428
23	9310	A&G-Rents	485,861	484,564	484,825	485,005	484,626	485,628	516,850	516,229	485,351	485,061	484,538	484,780	5,883,319
24	9320	A&G-Maintenance of general plant	33,503	31,997	32,344	33,074	32,567	32,908	38,737	31,517	33,730	32,363	31,400	31,591	395,733
25		Operating (Income)Loss*	($0)	($0)	($0)	$0	($0)	($0)	($0)	$0	($0)	$0	$0	($0)	($0)
26															
27	9220	A&G-Administrative expense transferred-Credit	(8,149,412)	(11,290,391)	(8,345,078)	(9,582,779)	(7,929,889)	(7,842,749)	(8,614,674)	(8,594,391)	(8,663,954)	(8,843,934)	(8,225,188)	(10,839,629)	
28		Allocation Factor to Kentucky	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	
29		Total Allocated Amount	(423,852)	(587,215)	(434,029)	(498,402)	(412,435)	(407,903)	(448,051)	(446,996)	(450,614)	(459,974)	(427,793)	(563,771)	(5,561,034)

*Note: Debits are shown as positive, and credits are shown as negatives. Includes the Shared Services allocation.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account,**Div 012 Only**
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period — FR 16(8)(c)2.2
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.2
Workpaper Reference No(s)._____________________ — Witness: Waller, Martin

Line No.	Acct No.	Account Discription	Forecasted Apr-18	Forecasted Jun-18	Forecasted Jun-18	Forecasted Jul-18	Forecasted Aug-18	Forecasted Sep-18	Forecasted Oct-18	Forecasted Nov-18	Forecasted Dec-18	Forecasted Jan-19	Forecasted Feb-19	Forecasted Mar-19	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
1	4030	Depreciation Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
2	4081	Taxes other than income taxes, utility operating incom	0	0	0	0	0	0	0	0	0	0	0	0	0
3	8700	Distribution-Operation supervision and engineering	0	0	0	0	0	0	0	0	0	0	0	0	0
4	8740	Mains and Services Expenses	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	20,398
5	8800	Distribution-Other expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
6	9010	Customer accounts-Operation supervision	407,599	436,719	402,897	418,719	432,868	380,184	426,375	421,078	405,045	452,625	397,417	432,087	5,013,614
7	9020	Customer accounts-Meter reading expenses	3,134	3,417	3,128	3,201	3,345	2,911	3,303	3,303	3,154	3,526	3,079	3,377	38,878
8	9030	Customer accounts-Customer records and collections	1,810,744	1,916,150	1,756,419	1,848,984	1,878,423	1,638,038	1,903,327	1,851,811	1,770,551	2,026,702	1,729,318	1,893,775	22,024,243
9	9200	A&G-Administrative & general salaries	422,126	460,308	421,295	431,107	450,614	392,094	444,897	444,897	424,805	474,973	414,698	454,882	5,236,696
10	9210	A&G-Office supplies & expense	220,902	217,063	251,609	214,350	204,020	204,958	206,587	197,708	202,318	204,425	204,475	221,038	2,549,453
11	9220	A&G-Administrative expense transferred-Credit	(3,907,670)	(4,194,183)	(3,893,524)	(3,977,653)	(4,067,300)	(3,611,821)	(4,091,131)	(4,036,197)	(3,884,057)	(4,330,597)	(3,793,887)	(4,140,888)	(47,928,909)
12	9230	A&G-Outside services employed	43,140	41,899	60,005	40,016	38,646	36,784	36,386	37,068	36,457	36,245	38,130	45,642	490,418
13	9240	A&G-Property insurance	0	0	0	0	0	0	0	0	0	0	0	0	0
14	9250	A&G-Injuries & damages	0	0	0	0	0	0	0	0	0	0	0	0	0
15	9260	A&G-Employee pensions and benefits	862,549	982,279	864,429	884,473	923,037	820,499	933,443	943,986	899,028	994,601	870,423	953,737	10,932,485
16	9310	A&G-Rents	135,774	134,643	132,033	135,099	134,643	134,643	135,099	134,643	140,992	135,795	134,643	134,643	1,622,651
17	9320	A&G-Maintenance of general plant	4	4	8	4	4	8	15	4	8	4	4	8	73
18															
19	Operating (Income)Loss*		($0)	($0)	($0)	$0	$0	($0)	$0	($0)	$0	$0	($0)	$0	$0
20															
21	9220	A&G-Administrative expense transferred-Credit	(3,907,670)	(4,194,183)	(3,893,524)	(3,977,653)	(4,067,300)	(3,611,821)	(4,091,131)	(4,036,197)	(3,884,057)	(4,330,597)	(3,793,887)	(4,140,888)	(47,928,909)
22		Allocation Factor to Kentucky	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	5.67%	
23		Total Allocated Amount	(221,600)	(237,848)	(220,798)	(225,569)	(230,653)	(204,823)	(232,004)	(228,889)	(220,261)	(245,584)	(215,148)	(234,826)	(2,718,003)

*Note: Debits are shown as positive, and credits are shown as negatives. Includes the Shared Services allocation.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Monthly Jurisdictional Operating Income by FERC Account, **Div 091 Only**
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).____________________

FR 16(8)(c)2.2
Schedule C-2.2
Witness: Waller, Martin

Line No.	Acct No.	Account Discription	Forecasted Apr-18	Forecasted Jun-18	Forecasted Jun-18	Forecasted Jul-18	Forecasted Aug-18	Forecasted Sep-18	Forecasted Oct-18	Forecasted Nov-18	Forecasted Dec-18	Forecasted Jan-19	Forecasted Feb-19	Forecasted Mar-19	Total
			$	$	$	$	$	$	$	$	$	$	$	$	$
1	4030	Depreciation Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
2	4060	Amortization of gas plant acquisition adjustments													
3	4081	Taxes other than income taxes, utility operating i	-	-	-	-	-	-	-	-	-	-	-	-	-
4	8170	Lines expenses	40	40	40	41	40	40	41	41	41	42	40	40	486
5	8180	Compressor station expenses	42	41	42	43	41	42	42	43	43	43	42	42	507
6	8190	Compressor station fuel and power	465	463	463	482	460	467	473	481	476	485	466	469	5,650
7	8210	Storage-Purification expenses	276	274	274	286	273	277	281	285	282	287	276	278	3,349
8	8240	Storage-Other expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
9	8250	Storage well royalties	1,353	1,346	1,347	1,402	1,338	1,359	1,377	1,400	1,385	1,411	1,357	1,364	16,439
10	8500	Transmission-Operation supervision and enginee	8,318	6,961	6,690	6,737	6,762	8,625	6,696	6,860	6,987	7,362	7,086	7,339	86,425
11	8560	Mains expenses	75	73	77	80	81	75	79	84	66	90	59	92	930
12	8570	Transmission-Measuring and regulating station e	80	80	80	83	79	80	81	83	82	83	80	81	973
13	8650	Transmission-Maintenance of me - Non-Inventor	5,298	4,433	4,258	4,289	4,306	5,491	4,264	4,363	4,449	4,688	4,513	4,672	55,026
14	8700	Distribution-Operation supervision and engineeri	275,736	297,425	290,309	266,474	279,196	290,705	263,463	308,461	266,873	303,090	283,944	302,924	3,428,600
15	8711	Odorization	7,027	6,575	7,989	8,237	9,255	7,206	8,128	9,599	3,685	11,375	1,587	12,698	93,362
16	8740	Mains and Services Expenses	2,676	1,925	2,714	2,406	2,285	3,601	1,749	2,213	1,845	2,752	1,533	2,986	28,684
17	8750	Distribution-Measuring and regulating station exp	17,298	16,560	18,391	17,506	18,750	16,580	17,611	18,911	15,454	18,709	13,381	23,177	212,328
18	8760	Distribution-Measuring and regulating station exp	(94)	(88)	(107)	(110)	(124)	(96)	(109)	(129)	(49)	(152)	(21)	(170)	(1,250)
19	8770	Distribution-Measuring and regulating station exp	55	52	63	65	73	57	64	76	29	89	12	100	734
20	8800	Distribution-Other expenses	46	40	59	49	45	62	42	75	46	49	39	55	607
21	8810	Distribution-Rents	22,637	22,513	22,534	23,450	22,377	22,731	23,040	23,420	23,179	23,603	22,703	22,823	275,010
22	9010	Customer accounts-Operation supervision	1,806	1,952	1,833	1,891	1,965	1,761	1,930	2,004	1,855	2,024	1,758	1,959	22,737
23	9020	Customer accounts-Meter reading expenses	(89)	(75)	(72)	(72)	(73)	(93)	(72)	(74)	(75)	(79)	(76)	(79)	(929)
24	9030	Customer accounts-Customer records and collec	362,214	318,244	302,627	307,187	310,922	370,510	307,622	313,296	315,355	334,765	316,176	330,982	3,889,899
25	9100	Customer service-Miscellaneous customer servic	130	203	96	102	123	122	104	103	93	96	128	99	1,398
26	9110	Sales-Supervision	9,719	9,879	10,582	10,159	10,244	10,601	9,886	12,285	9,809	10,522	9,081	10,807	123,575
27	9120	Sales-Demonstrating and selling expenses	85	132	63	67	80	79	68	67	61	63	84	65	914
28	9130	Sales-Advertising expenses	64	100	48	50	61	60	51	51	46	48	63	49	692
29	9200	A&G-Administrative & general salaries	10,841	9,041	8,689	8,865	8,791	11,358	9,232	8,908	8,870	9,564	9,215	9,505	112,880
30	9210	A&G-Office supplies & expense	296	315	334	290	288	366	261	412	270	285	264	316	3,697
31	9220	A&G-Administrative expense transferred-Credit	(964,768)	(1,027,879)	(904,057)	(1,001,651)	(857,469)	(934,152)	(892,708)	(965,621)	(921,859)	(1,016,467)	(930,602)	(992,137)	(11,409,370)
32	9230	A&G-Outside services employed	45,563	38,127	36,616	36,884	37,029	47,225	36,673	37,525	38,263	40,316	38,816	40,180	473,215
33	9240	A&G-Property insurance	(15,825)	(15,664)	(16,094)	(15,715)	(15,831)	(17,131)	(15,235)	(15,472)	(15,768)	(15,446)	(15,446)	(15,718)	(189,343)
34	9250	A&G-Injuries & damages	50,883	51,748	51,454	51,254	52,102	53,054	53,215	53,718	53,404	54,605	51,778	54,239	631,453
35	9260	A&G-Employee pensions and benefits	149,959	231,974	146,899	259,735	93,287	88,627	155,992	170,730	177,462	198,372	175,739	174,569	2,023,344
36	9302	Miscellaneous general expenses	7,794	23,190	5,760	9,435	13,247	10,310	5,657	5,801	7,343	7,326	5,922	6,192	107,979
37	9310	A&G-Rents	0	0	0	0	0	0	0	0	0	0	0	0	0
38															
39	Operating (Income)Loss*		($0)	$0	$0	($0)	$0	($0)	$0	$0	$0	($0)	($0)	$0	$0
40															
41	9220	A&G-Administrative expense transferred-Credit	(964,768)	(1,027,879)	(904,057)	(1,001,651)	(857,469)	(934,152)	(892,708)	(965,621)	(921,859)	(1,016,467)	(930,602)	(992,137)	(11,409,370)
42		Allocation Factor to Kentucky	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%
43		Total Allocated Amount	(484,809)	(516,523)	(454,301)	(503,343)	(430,890)	(469,424)	(448,598)	(485,238)	(463,246)	(510,788)	(467,640)	(498,562)	(5,733,364)

*Note: Debits are shown as positive, and credits are shown as negatives. Includes the Shared Services allocation.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Account 4081-Taxes Other than Income Tax by Sub-Account
Base Period: Twelve Months Ended December 31, 2017

Data:___X____Base Period________Forecasted Period — FR 16(8)(c)2.3
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.3 B
Workpaper Reference No(s).____________________ — Witness: Waller

Line No.	Discription	actual Jan-17	actual Feb-17	actual Mar-17	actual Apr-17	actual May-17	actual Jun-17	Forecasted Jul-17	Forecasted Aug-17	Forecasted Sep-17	Budgeted Oct-17	Budgeted Nov-17	Budgeted Dec-17	Total
	Div 009													
1	FICA	$ 33,474	$ 25,321	$ 39,054	$ 21,058	$ 21,413	$ 20,019	$ 40,602	$ 15,609	$ 43,261	$ 20,683	$ 65,700	$ 11,723	$ 357,917
2	FUTA	$ 3,150	$ 27	$ (326)	$ (4)	$ 27	$ 5	$ 729	$ 280	$ 777	$ 372	$ 1,180	$ 211	6,429
3	SUTA	$ 3,217	$ 939	$ (2,303)	$ 239	$ 16	$ 4	$ 535	$ 206	$ 570	$ 273	$ 866	$ 154	4,716
4	Payroll Tax Projects	$ -	$ 13	$ -	$ 47	$ -	$ 13	$ -	$ -	$ -	$ -	$ -	$ -	72
5	Ad Valorem - Accrual	$245,588	$ 245,588	$ 245,588	$ 245,588	$ 245,588	$ 245,588	$ 248,199	$248,199	$248,199	$391,500	$391,500	$391,500	3,392,625
6	Dot Transmission User Tax	$ -	$ -	$ 30,151	$ -	$ -	$ 52,130	$ -	$ -	$ -	$ -	$ -	$ -	82,281
7	Taxes Property and Other	$ 19,081	$ -	$ 159	$ 37,107	$ 42	$ -	$ 17,415	$ 192	$ 47,279	$ 12,215	$ 64	$ 873	134,427
8	Public Service Commission Assessment	$ 27,573	$ 27,573	$ 27,573	$ 27,573	$ 27,573	$ 27,573	$ 25,193	$ 25,193	$ 25,193	$ 24,523	$ 24,523	$ 24,523	314,587
9	Allocation for taxes other CSC	$ 16,599	$ 15,182	$ 12,466	$ 10,993	$ 15,016	$ 10,886	$ 9,047	$ 9,047	$ 9,047	9,841	9,841	9,841	137,807
10	Allocation from taxes other SS	$ 26,373	$ 20,039	$ 15,692	$ (105,355)	$ 142,731	$ 15,677	$ 12,839	$ 12,839	$ 12,839	14,655	14,655	14,655	197,639
11	Allocation from taxes other Gen Office	$ 55,871	$ 11,950	$ 6,562	$ 12,969	$ 19,060	$ 17,434	$ 13,808	$ 13,808	$ 13,808	12,202	12,202	12,202	201,876
12														
13	Total	$430,926	$ 346,632	$ 374,617	$ 250,216	$ 471,465	$ 389,331	$ 368,367	$325,373	$400,973	$486,263	$520,531	$465,682	$ 4,830,375
14														
15	**Div 002**													
16	FICA	$375,717	$ 330,990	$ 264,587	$ 257,411	$ 370,189	$ 256,179	$ 191,593	$191,593	$191,593	$205,199	$205,199	$205,199	$ 3,045,446
17	FUTA	$ 29,577	$ (105)	$ (1,000)	$ 40	$ 663	$ 272	$ 3,041	$ 3,041	$ 3,041	$ 3,257	$ 3,257	$ 3,257	48,342
18	SUTA	$ 55,762	$ 26,610	$ (5,864)	$ 489	$ 1,662	$ 983	$ 8,225	$ 8,225	$ 8,225	$ 8,810	$ 8,810	$ 8,810	130,748
19	Ad Valorem	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 64,500	$ 64,500	$ 64,500	589,500
20	Benefit Load Projects	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	0
21	Taxes Property And Other	$ 259	$ (16,188)	$ -	$ (2,327,654)	$2,327,847	$ 180,544	$ -	$ -	$ -	$ -	$ -	$ -	164,808
22														
23	Total Tax Other Than Income Tax	$505,315	$ 385,308	$ 301,722	$ (2,025,714)	$2,744,361	$ 481,977	$ 246,859	$246,859	$246,859	$281,765	$281,765	$281,765	$ 3,978,843
24														
25	Allocation Factor to Kentucky Mid-States (Div 091)										10.35%	10.35%	10.35%	
26	Allocation Factor to Kentucky Jurisdiction (Div 009)										50.25%	50.25%	50.25%	
27														
28	Total Allocated Amount	$ 26,373	$ 20,039	$ 15,692	$ (105,355)	$ 142,731	$ 15,677	$ 12,839	$ 12,839	$ 12,839	$ 14,655	$ 14,655	$ 14,655	$ 197,639
29														
30	**Div 012**													
31	FICA	$199,727	$ 206,662	$ 179,394	$ 149,612	$ 219,423	$ 147,260	$ 109,106	$109,106	$109,106	$117,898	$117,898	$117,898	$ 1,783,093
32	FUTA	$ 16,983	$ 289	$ (479)	$ 12	$ 394	$ 156	$ 1,718	$ 1,718	$ 1,718	$ 1,857	$ 1,857	$ 1,857	28,078
33	SUTA	$ 32,014	$ 16,791	$ (3,067)	$ 245	$ 985	$ 566	$ 4,706	$ 4,706	$ 4,706	$ 5,085	$ 5,085	$ 5,085	76,905
34	Ad Valorem	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 44,000	$ 48,700	$ 48,700	$ 48,700	542,100
35														
36	Total Tax Other Than Income Tax	$292,724	$ 267,742	$ 219,848	$ 193,870	$ 264,801	$ 191,981	$ 159,530	$159,530	$159,530	$173,540	$173,540	$173,540	$ 2,430,176
37														
38	Allocation Factor to Kentucky Mid-States (Div 091)										10.93%	10.93%	10.93%	
39	Allocation Factor to Kentucky Jurisdiction (Div 009)										51.88%	51.88%	51.88%	
40														
41	Total Allocated Amount	$ 16,599	$ 15,182	$ 12,466	$ 10,993	$ 15,016	$ 10,886	$ 9,047	$ 9,047	$ 9,047	$ 9,841	$ 9,841	$ 9,841	$ 137,807
42														
43	**Div 091**													
44	FICA	$102,722	$ 18,098	$ 9,389	$ 20,668	$ 32,894	$ 29,691	$ 22,205	$ 22,205	$ 22,205	$ 23,789	$ 23,789	$ 23,789	$ 351,445
45	FUTA	$ 1,640	$ 44	$ (177)	$ (2)	$ 15	$ 3	$ 158	$ 158	$ 158	$ 170	$ 170	$ 170	2,505
46	SUTA	$ 1,675	$ 542	$ (1,258)	$ 130	$ 9	$ 2	$ 114	$ 114	$ 114	$ 123	$ 123	$ 123	1,811
47	Payroll Tax Projects	$ 149	$ 98	$ 106	$ 13	$ 13	$ -	$ -	$ -	$ -	$ -	$ -	$ -	378
48	Ad Valorem	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 200	$ 200	$ 200	45,600
49	Occupational Licenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	0
50														
51	Total Tax Other Than Income Tax	$111,186	$ 23,781	$ 13,060	$ 25,809	$ 37,930	$ 34,696	$ 27,478	$ 27,478	$ 27,478	$ 24,281	$ 24,281	$ 24,281	$ 401,739
52														
53	Allocation Factor to Kentucky Mid-States (Div 091)										100.00%	100.00%	100.00%	
54	Allocation Factor to Kentucky Jurisdiction (Div 009)										50.25%	50.25%	50.25%	
55														
56	Total Allocated Amount	$ 55,871	$ 11,950	$ 6,562	$ 12,969	$ 19,060	$ 17,434	$ 13,808	$ 13,808	$ 13,808	$ 12,202	$ 12,202	$ 12,202	$ 201,876

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Account 4081-Taxes Other than Income Tax by Sub-Account
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:________Base Period___X____Forecasted Period — FR 16(8)(c)2.3
Type of Filing:___X____Original________Updated ________Revised — Schedule C-2.3 F
Workpaper Reference No(s).____________________ — Witness: Waller

Line No.	Discription	Forecasted Apr-18	Forecasted May-18	Forecasted Jun-18	Forecasted Jul-18	Forecasted Aug-18	Forecasted Sep-18	Forecasted Oct-18	Forecasted Nov-18	Forecasted Dec-18	Forecasted Jan-19	Forecasted Feb-19	Forecasted Mar-19	Total
	Div 009													
1	FICA	$ 21,690	$ 22,055	$ 20,620	$ 41,820	$ 16,077	$ 44,559	$ 21,303	$ 67,671	$ 12,075	$ 35,513	$ 26,863	$ 41,432	$ 371,678
2	FUTA	(4)	28	5	751	289	800	383	1,216	217	3,342	28	(345)	6,710
3	SUTA	246	16	5	551	212	587	281	892	159	3,413	996	(2,443)	4,915
4	Payroll Tax Projects	48	-	13	-	-	-	-	-	-	-	-	-	61
5	Ad Valorem - Accrual	423,000	423,000	423,000	423,000	423,000	423,000	423,000	423,000	423,000	423,000	423,000	423,000	5,076,000
6	Dot Transmission User Tax	-	-	52,130	-	-	-	-	-	-	-	-	30,151	82,281
7	Taxes Property and Other	37,107	42	-	17,415	192	47,279	12,215	64	873	19,081	-	159	134,427
8	Public Service Commission Assessment	28,398	28,398	28,398	28,398	28,398	28,398	28,398	28,398	28,398	28,398	28,398	28,398	340,776
9	Allocation for taxes other CSC	11,737	15,880	11,627	9,731	9,731	9,731	10,275	10,275	10,275	17,947	16,444	13,562	147,214
10	Allocation from taxes other SS	17,443	23,581	17,416	14,492	14,492	14,492	15,264	15,264	15,264	25,022	22,554	18,890	214,176
11	Allocation from taxes other Gen Office	10,921	17,195	15,521	11,785	11,785	11,785	12,615	12,615	12,615	56,760	10,163	4,447	188,208
12														
13	Total	$ 550,587	$ 530,195	$ 568,735	$ 547,943	$ 504,176	$ 580,632	$ 523,734	$ 559,394	$ 502,876	$ 612,476	$ 528,447	$ 557,251	$ 6,566,445
14														
15	**Div 002**													
16	FICA	$ 265,133	$ 381,295	$ 263,864	$ 197,340	$ 197,340	$ 197,340	$ 211,354	$ 211,354	$ 211,354	$ 398,598	$ 351,147	$ 280,700	$ 3,166,822
17	FUTA	41	683	280	3,132	3,132	3,132	3,355	3,355	3,355	3,456	3,456	3,456	30,833
18	SUTA	504	1,711	1,012	8,472	8,472	8,472	9,074	9,074	9,074	9,346	9,346	9,346	83,905
19	Ad Valorem	69,700	69,700	69,700	69,700	69,700	69,700	69,700	69,700	69,700	69,700	69,700	69,700	836,400
20	Benefit Load Projects	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Taxes Property And Other	-	-	-	-	-	-	-	-	-	-	-	-	-
22														
23	Total Tax Other Than Income Tax	$ 335,378	$ 453,389	$ 334,856	$ 278,645	$ 278,645	$ 278,645	$ 293,483	$ 293,483	$ 293,483	$ 481,100	$ 433,649	$ 363,202	$ 4,117,959
24														
25	Allocation Factor to Kentucky Mid-States (Div 091)	10.35%	10.35%	10.35%	10.35%	10.35%	10.35%	10.35%	10.35%	10.35%	10.35%	10.35%	10.35%	
26	Allocation Factor to Kentucky Jurisdiction (Div 009)	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	
27														
28	Total Allocated Amount from Div 2	17,443	23,581	17,416	14,492	14,492	14,492	15,264	15,264	15,264	25,022	22,554	18,890	$ 214,176
29														
30	**Div 012**													
31	FICA	$ 154,101	$ 226,006	$ 151,678	$ 112,380	$ 112,380	$ 112,380	$ 121,435	$ 121,435	$ 121,435	$ 211,890	$ 219,248	$ 190,319	$ 1,854,686
32	FUTA	$ 13	$ 406	$ 160	$ 1,770	$ 1,770	$ 1,770	$ 1,912	$ 1,912	$ 1,912	$ 18,017	$ 306	$ (508)	29,439
33	SUTA	$ 253	$ 1,014	$ 583	$ 4,847	$ 4,847	$ 4,847	$ 5,238	$ 5,238	$ 5,238	$ 33,964	$ 17,813	$ (3,254)	80,626
34	Ad Valorem	52,600	52,600	52,600	52,600	52,600	52,600	52,600	52,600	52,600	52,600	52,600	52,600	631,200
35														
36	Total Tax Other Than Income Tax	$ 206,966	$ 280,025	$ 205,021	$ 171,596	$ 171,596	$ 171,596	$ 181,185	$ 181,185	$ 181,185	$ 316,471	$ 289,968	$ 239,157	$ 2,595,951
37														
38	Allocation Factor to Kentucky Mid-States (Div 091)	10.93%	10.93%	10.93%	10.93%	10.93%	10.93%	10.93%	10.93%	10.93%	10.93%	10.93%	10.93%	
39	Allocation Factor to Kentucky Jurisdiction (Div 009)	51.88%	51.88%	51.88%	51.88%	51.88%	51.88%	51.88%	51.88%	51.88%	51.88%	51.88%	51.88%	
40														
41	Total Allocated Amount from Div 12	11,737	15,880	11,627	9,731	9,731	9,731	10,275	10,275	10,275	17,947	16,444	13,562	$ 147,214
42														
43	**Div 091**													
44	FICA	$ 21,288	$ 33,880	$ 30,581	$ 22,871	$ 22,871	$ 22,871	$ 24,503	$ 24,503	$ 24,503	$ 108,978	$ 19,200	$ 9,961	$ 366,011
45	FUTA	$ (2)	$ 15	$ 3	$ 163	$ 163	$ 163	$ 175	$ 175	$ 175	$ 1,740	$ 46	$ (188)	2,627
46	SUTA	$ 134	$ 9	$ 2	$ 118	$ 118	$ 118	$ 126	$ 126	$ 126	$ 1,777	$ 575	$ (1,335)	1,895
47	Payroll Tax Projects	$ 13	$ 13	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 158	$ 104	$ 113	400
48	Ad Valorem	300	300	300	300	300	300	300	300	300	300	300	300	3,600
49	Occupational Licenses	-	-	-	-	-	-	-	-	-	-	-	-	-
50														
51	Total Tax Other Than Income Tax	$ 21,734	$ 34,218	$ 30,886	$ 23,452	$ 23,452	$ 23,452	$ 25,104	$ 25,104	$ 25,104	$ 112,952	$ 20,225	$ 8,850	$ 374,534
52														
53	Allocation Factor to Kentucky Mid-States (Div 091)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
54	Allocation Factor to Kentucky Jurisdiction (Div 009)	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	50.25%	
55														
56	Total Allocated Amount from Div 91	10,921	17,195	15,521	11,785	11,785	11,785	12,615	12,615	12,615	56,760	10,163	4,447	$ 188,208

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

FR 16(8)(d) SCHEDULE D

Operating Income Summary

Schedule	Pages	Description
D-1	4	Summary of Utility Jurisdictional Adjustments to Operating Income by Accou
D-2.1	1	Detailed Adjustments
D-2.2	1	Detailed Adjustments
D-2.3	1	Detailed Adjustments

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Summary of Utility Jurisdictional Adjustments to
Operating Income by Major Accounts
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period — FR 16(8)(d)1
Type of Filing:_______Original________Updated ____X____Revised — Schedule D-1
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Account No. & Title	Base Period	D-2.1 ADJ 1	D-2.1 ADJ 2	D-2.1 ADJ 3	D-2.2 ADJ 4	D-2.2 ADJ 5	Total ADJUST.
			Title of Adjustment					
	SALE of Gas							
1	480 Gas Rev - Residential	92,003,988	6,373,932					6,373,932
2	480 Gas Rev - Commericial	38,443,048	2,194,016					2,194,016
3	480 Gas Rev - Industrial	6,816,386	(1,529,630)					(1,529,630)
4	480 Gas Rev - Public Authority & Other	6,397,243	450,129					450,129
5								
6								
7	Total SALE of Gas	143,660,664	7,488,447	0	0	0	0	7,488,447
8								
9	Other Operating Income							
10	Forfeited discounts	1,231,452		66,512				66,512
11	488 MISC. Service Revenues	805,992		62				62
12	489 Revenue From Transporting Gas to Others	15,830,894		(628,807)				(628,807)
13	495 Other Gas Service Revenue	1,173,474		1,100,586				1,100,586
14								
15	Total Other Operating Income	19,041,812	0	538,353	0	0	0	538,353
16								
17	Total Operating Revenue	162,702,476	7,488,447	538,353	0	0	0	8,026,800
18								
19	Other Gas Supply Expenses - Operation							
20	803/804/812 Gas Purchase Costs	65,546,014			13,163,103			13,163,103
21								
22	Total Other Gas Supply Expenses - Operation	65,546,014	0	0	13,163,103	0	0	13,163,103
23								
24	Total Plant Revenue	97,156,461	7,488,447	538,353	(13,163,103)	0	0	(5,136,303)
25								
26	Blended Effective Tax Rate	25.74%	1,927,526	138,572	(3,388,183)	0	0	(1,322,084)
27								
28	NET Operating Income Impact		5,560,921	399,781	(9,774,920)	0	0	(3,814,218)

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Summary of Utility Jurisdictional Adjustments to
Operating Income by Major Accounts
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period — FR 16(8)(d)1
Type of Filing:_______Original________Updated ____X____Revised — Schedule D-1
Workpaper Reference No(s)._____________________ — Witness: Waller, Martin

				Title of Adjustment					GRAND
Line	ACCOUNT No.		Base	D-2.2	D-2.2	D-2.2	D-2.2	D-2.2	Total
No.	& Title		Period	ADJ 1	ADJ 2	ADJ 3	ADJ 4	ADJ 5	ADJUST.
29	7590	814 Storage Supervision & Engineering	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
30	8140	814 Storage Supervision & Engineering	-	#VALUE!	#VALUE!	#VALUE!	-		#VALUE!
31	8150	815 Maps and records	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
32	8160	816 Storage Wells Expense	128,970	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
33	8170	817 Storage Lines Expense	35,012	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
34	8180	818 Storage Compressor Station	34,838	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
35	8190	819 Storage Compressor Station Fuel	1,123	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
36	8200	820 Storage Measuring & Regulating	3,667	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
37	8210	821 Storage Purification	25,635	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
38	8240	824 Storage Other Expense	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
39	8250	825 Storage Royalties	13,498	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
40	8310	831 Storage Maintenance Structure	15,145	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
41	8320	832 Storage Maintenance Res	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
42	8340	834 Storage Maintenance Compressor	11,248	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
43	8350	835 Storage Maintenance Meas/Reg	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
44	8360	836 Storage Maintenance Purification	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
45	8370	837 Maintenance of other equipment	-	#VALUE!	#VALUE!	#VALUE!	-		#VALUE!
46	8400	840 Other Storage Expense	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
47	8410	841 Storage Operation	133,473	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
48	8470	847 Storage Maintenance	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
49	8500	850 Trsm Supervision & Engineering	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
50	8520	852 Communication system expenses	-	#VALUE!	#VALUE!	#VALUE!	-		#VALUE!
51	8550	855 Other Fuel & Power Comp	332	#VALUE!	#VALUE!	#VALUE!			
52	8560	856 Trsm Mains Expense	252,640	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
53	8570	857 Trsm Measuring & Regulating	11,618	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
54	8590	859 Trsm Other Exp	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
55	8600	860 Rents	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
56	8620	862 Trsm Structure & Improvements	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
57	8630	863 Trsm Maint of Mains	2,900	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
58	8640	864 Trsm Maint Comp Sta Equip	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
59	8650	865 Trsm Maint Meas/Reg Sta	396	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
60	8670	867 Trsm Maint Other Eq	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
61	8700	870 Dist Supervision & Engineering	1,193,065	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
62	8710	871 Dist Load Dispatching	1,103	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
63	8711	8711 Odorization	2,545	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
64	8720	872 Dist Comp Sta	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
65	8740	874 Dist Main/Ser Exp	3,300,059	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
66	8750	875 Dist Meas/Reg Sta-Gen	478,055	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
67	8760	876 Dist Meas/Reg Sta-Ind	30,154	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
68	8770	877 Dist Meas/Reg Sta-Cty.	22,074	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
69	8780	878 Dist Mtr/House Reg	934,416	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
70	8790	879 Dist Cust Install	4,014	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
71	8800	880 Dist Other Exp	149,633	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
72	8810	881 Dist Rents	383,108	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
73	8850	885 Dist Maint Super/Eng	1,623	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
74	8860	886 Dist Maint Struc/Improv	300	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Summary of Utility Jurisdictional Adjustments to
Operating Income by Major Accounts
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period — FR 16(8)(d)1
Type of Filing:_______Original________Updated ____X____Revised — Schedule D-1
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line	Account No.		Base	Title of Adjustment					GRAND
				D-2.2	D-2.2	D-2.2	D-2.2	D-2.2	Total
No.	& Title		Period	ADJ 1	ADJ 2	ADJ 3	ADJ 4	ADJ 5	ADJUST.
75	8870	887 Dist Maint of Mains	29,455	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
76	8890	889 Dist Maint Meas/Reg Sta-Gen	36	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
77	8900	890 Dist Maint Meas/Reg Sta-Ind	8,796	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
78	8910	891 Dist Maint Meas/Reg Sta-Cty	4,281	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
79	8920	892 Dist Maint of Ser	102	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
80	8930	893 Dist Maint Mtr/House Reg	89,917	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
81	8940	894 Dist Maint Other Eq	11,083	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
82	8950	895 Maintenance of Other Plant	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
83	9010	901 Cust Accts Supervision	406	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
84	9020	902 Cust Accts Mtr Exp	1,186,802	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
85	9030	903 Cust Accts Records/Collections	1,660,972	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
86	9040	904 Cust Accts Uncoll Accts	369,911	#VALUE!	#VALUE!	#VALUE!	(7,799)	-	#VALUE!
87	9070	907 Cust Accts Supervision	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
88	9080	908 Customer Assistance Expenses	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
89	9090	909 Cust Ser Supervision	134,412	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
90	9100	910 Cust Ser Assist Exp	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
91	9110	911 Cust Ser Info Adv Exp	255,129	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
92	9120	912 Demonstrating and Selling Expenses	117,086	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
93	9130	913 Advertising Expenses	38,737	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
94	9160	916 Sales Promo Demo/Selling	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
95	9200	920 Administrative and General Salaries	141,985	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
96	9210	921 Adm Gen Office Supply	1,380	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
97	9220	922 Administrative Expense Transferred	13,526,080	#VALUE!	#VALUE!	#VALUE!	-	486,321	#VALUE!
98	9230	923 Adm Gen Outside Services Emply	64,811	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
99	9240	924 Property insurance	88,982	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
100	9250	925 Adm Gen Injuries/Damages	18,681	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
101	9260	926 Adm Gen Empl Pen/Ben	1,947,365	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
102	9270	927 Adm Gen Franchise Req	6,390	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
103	9280	928 Adm Gen Reg Comm Exp	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
104	9290	929 Uniforms capitalized	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
105	9301	9301 Adm Gen Goodwill Adv	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
106	9302	9302 Adm Gen Gen Exp	74,162	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
107	9310	931 A&G-Rents	14,287	#VALUE!	#VALUE!	#VALUE!	-		#VALUE!
108	9320	932 Adm Gen Maint Gen Plant	-	#VALUE!	#VALUE!	#VALUE!	-	-	#VALUE!
109	Total		26,961,891	#VALUE!	#VALUE!	#VALUE!	(7,799)	486,321	#VALUE!
110	Labor and Benefits		6,804,939	#VALUE!					#VALUE!
111	Rent, Maintenance and Utilites		586,728		#VALUE!				#VALUE!
112	Other O&M		5,674,233			#VALUE!			#VALUE!
113	Bad Debt		369,911				(7,799)		(7,799)
114	Costs allocated from SSU and KY-MDS General Office		13,526,080	#VALUE!	#VALUE!	#VALUE!		486,321	#VALUE!
115	Total		26,961,891	(48,013)	(62,276)	234,109	(7,799)	486,321	#VALUE!
116	Blended Effective Tax Rate		25.74%	12,358	16,030	(60,260)	2,007	(125,179)	#VALUE!
117	NET Operating Income Impact			(35,654)	(46,246)	173,849	(5,791)	361,142	#VALUE!

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Summary of Utility Jurisdictional Adjustments to
Operating Income by Major Accounts
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period — FR 16(8)(d)1
Type of Filing:_______Original________Updated ____X____Revised — Schedule D-1
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

Line No.	Account No. & Title	Base Period	Title of Adjustment D-2.3 ADJ 1	D-2.3 ADJ 2	D-2.1 ADJ 3	D-2.2 ADJ 4	D-2.2 ADJ 5	Total ADJUST.
118	403 DEPRECIATION Expense	18,849,735	2,662,197					2,662,197
119	404 Amortization Expense	0						0
120	406 AMORT. - Gas Plant AQUIST.	24,791						0
121								
122	Total DEPRECIATION and Amortization	18,874,525	2,662,197					2,662,197
123								
124	Blended Effective Tax Rate	25.74%	685,249					685,249
125								
126	NET Operating Income Impact		1,976,947					1,976,947
127								
128								
129								
130								
131	408 Taxes, Other than Income	4,830,375		1,736,070				1,736,070
132								
133	Blended Effective Tax Rate	25.74%		446,864				446,864
134								
135	NET Operating Income Impact			1,289,205				1,289,205

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Detailed Adjustments
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__X_____Base Period___X____Forecasted Period — FR 16(8)(d)2.1
Type of Filing:___X_____Original________Updated — Schedule D-2.1
Workpaper Reference No(s)._____________________ — Witness: Waller, Martin

LN NO	Purpose and Description		Amount
1	**ADJ1**		
2	SALE of Gas-Residential - the purpose of this Adjustment is to reflect the normalization of volumes	Forecasted	$98,377,919
3	due to warm weather in base period, and changes in gas costs between the periods	Base	92,003,988
4		Adjustment	$6,373,932
5			6.9%
6			
7	SALE of Gas-Commercial - the purpose of this Adjustment is to reflect the normalization of volumes	Forecasted	$40,637,064
8	due to warm weather in base period, and changes in gas costs between the periods	Base	38,443,048
9		Adjustment	$2,194,016
10			5.7%
11			
12	SALE of Gas-Industrial - the purpose of this Adjustment is to reflect known and measurable changes,	Forecasted	$5,286,755
13	increases and reductions, shifts from base period to test year and	Base	6,816,386
14	changes in gas costs between the periods.	Adjustment	($1,529,630)
15			-22.4%
16			
17	SALE of Gas-Public Authority - The purpose of this Adjustment is to reflect the normalization of	Forecasted	$6,847,372
18	volumes due to warm weather in base period, and changes in gas costs between the periods	Base	6,397,243
19		Adjustment	$450,129
20			7.0%
21			
22	SALE of Gas - Unbilled - no adjustment.	Forecasted	$0
23		Base	0
24		Adjustment	$0
25			0.0%
26	**ADJ2**		
27	Forfeited discounts - the purpose of this adjustment is to reflect anticipated changes in the billed late	Forecasted	$1,297,964
28	payment fees from the base period to the test year.	Base	1,231,452
29		Adjustment	$66,512
30			5.4%
31			
32	Misc Service Revenues - the purpose of this adjustment is to reflect modest reduction in service charg	Forecasted	$806,054
33	revenues for the base period.	Base	805,992
34		Adjustment	$62
35			0.0%
36			
37	Revenue from Transportation - the purpose of this Adjustment is to reflect known and measurable	Forecasted	$15,202,087
38	changes in demand for existing industries and account for migration to/from transportation service	Base	15,830,894
39		Adjustment	($628,807)
40			-4.0%
41			
42	Other gas service revenues - the purpose of this adjustment is to reflect pro forma adjustments for	Forecasted	$2,274,060
43	individual customers and special contract reformations	Base	1,173,474
44		Adjustment	$1,100,586
45			93.8%
46	**ADJ3**		
47	Gas Purchase Costs - The purpose of this Adjustment is to reflect the purchase quantities	Forecasted	$78,709,117
48	for sales service. The Base Period includes Unbilled Gas Costs that will zero out by the end	Base	65,546,014
49	of the base period when replaced by actuals. Gas costs in the Base Period were low due to	Adjustment	$13,163,103
50	lower usage associated with warmer than normal temperatures		20.1%
51			
52			
53			
54	Summary of Revenue Adjustments.		
55	Base Year Revenues		162,702,476
56	Base Year Gas Costs		65,546,014
57	Base Year Gross Profit		97,156,461
58			
59	Test Year Revenues		170,729,276
60	Test Year Gas costs		78,709,117
61	Test Year Gross Profit		92,020,159

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Detailed Adjustments
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period — FR 16(8)(d)2.2
Type of Filing:___X_____Original________Updated — Schedule D-2.2
Workpaper Reference No(s).___________ — Witness: Waller, Martin

LN NO	Purpose and Description		Amount
1	**ADJ 1**		
2	Labor and Benefits - The purpose of this adjustment is to account for forecasted labor and benefits expense	Forecasted	6,756,926
3	due primarily to adjustments to labor capitalization rate versus the base period.	Base	6,804,939
4	Benefits are projected as a fixed benefit load percentage of labor expense plus an amount for workers' comp	Adjustment	(48,013)
5	insurance. This adjustment pertains to labor and benefits for Kentucky operations.		-0.7%
6			
7	**ADJ 2**		
8	Rent, Maintenance and Utilities - The purpose of this adjustment is to account for forecasted rent, maintenance	Forecasted	524,452
9	and utilities. Unlike other O&M categories that are likely to increase with normal inflation, our building rents are	Base	586,728
10	driven by leases already in place and can therefore be projected with a high level of accuracy. The rent portion	Adjustment	($62,276)
11	of this O&M category was projected by reviewing actual lease amounts. This adjustment pertains to expenses		-10.6%
12	for Kentucky operations.		
13			
14	**ADJ 3**		
15	Other O&M - The purpose of this adjustment is to account for projected changes in O&M expenses other than	Forecasted	5,908,342
16	labor, benefits, rent, and bad debt.	Base	5,674,233
17	This adjustment pertains to expenses for Kentucky operations.	Adjustment	$234,109
18			4.1%
19			
20	**ADJ 4**		
21	Bad Debt - The purpose of this adjustment is to account for anticipated bad debt costs due to uncollectible	Forecasted	362,112
22	accounts. The projection is made by calculating 0.50% of residential, commercial and public authority	Base	369,911
23	margins from the revenues projection.	Adjustment	($7,799)
24			-2.2%
25	**ADJ 5**		
26	Costs allocated from Shared Services and Kentucky-Mid States General Office - The purpose of this	Forecasted	14,012,401
27	adjustment is to account for the forecasted amount of expenses that are allocated to Kentucky from the	Base	13,526,080
28	Shared Services Unit and Division General Office.	Adjustment	$486,321
29			3.6%
30			
31	Summary of O & M adjustments.	Forecasted	27,564,234
32		Base	26,961,891
33		Adjustment	$602,342
34			2.2%

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Detailed Adjustments
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period — FR 16(8)(d)2.3
Type of Filing:___X____Original________Updated ________Revised — Schedule D-2.3
Workpaper Reference No(s).____________________ — Witness: Waller, Martin

LN NO	Purpose and Description		Amount
1	**ADJ1**		
2	Depreciation Expense - The purpose of this adjustment is to reflect the change in	Forecasted	$21,511,931
3	depreciation expense due to the increased level of depreciable plant investment.	Base	18,849,735
4		Adjustment	$2,662,197
5			14.1%
6	**ADJ2**		
7	Taxes Other - The purpose of this adjustment is to account for anticipated	Forecasted	$6,566,445
8	changes in Taxes, Other than Income Taxes	Base	4,830,375
9		Adjustment	$1,736,070
10			35.9%

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

FR 16(8)(e) SCHEDULE E

Income Tax Calculation

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Computation of State & Federal Income Tax
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

FR 16(8)(e)
Schedule E
Witness: Waller

Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).____________________

Line No.	Description	Base Period Unadjusted (1)	Adjustments (2)	Test Period Fully Adjusted (3)	Sched. Ref.
1	Operating Income before Income Tax & Interest	$ 40,525,231	$ (2,747,478)	$ 37,777,753	C-2
2	Interest Deduction	8,070,215	1,784,399	9,854,614	*
3	Taxable Income	$ 32,455,016	$ (4,531,877)	$ 27,923,139	
4	Composite Tax Rate (state & federal)	25.740%		25.740%	* *
5	**State & Federal Income Tax**	$ 8,353,921	$ (1,166,505)	**$ 7,187,416**	
	* Interest Expense Calculation:				
6	13 Month Average Rate Base	$358,900,188		$427,151,221	B-1
7	Weighted cost of Debt	2.25%		2.31%	J-1
8	Interest Expense	$ 8,070,215		$ 9,854,614	
9	2018 * * Composite Tax Rate Calculation: 6.00% + 21%(100% - 6.00%) = 25.74%				
10	State Tax Rate	6.00%			
11	Federal Tax Rate	21.00%			

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

FR 16(8)(f) SCHEDULE F

Schedule	Pages	Description
F-1	2	Social and Service Club Dues
F-2.1	1	Charitable Contributions
F-2.2	1	Initiation Fees/Country Club Expenses
F-2.3	1	Employee Party, Outing and Gift Expenses
F-3	1	Sales and Advertising Expenses
F-4	1	Advertising
F-5	1	Professional Service Expenses
F-6	1	Projected Rate Case Expense
F-7	1	Civic, Political and Related Activities
F-8	1	Expense Reports
F-9	1	Leases
F-10	1	Incentive Compensation Expense

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
SOCIAL and Service CLUB DUES
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X___Base Period___X____Forecasted Period — FR 16(8)(f)
Type of Filing:___X____Original________Updated________Revised — Schedule F-1
Workpaper Reference No(s). — Witness: Waller

Line No.	Account No.	Social Organization/Service Club	Total Utility	Jurisdictional %	Jurisdiction
		BASE PERIOD			
1	Various	JOURNAL ENTRY	0	100%	0
2	Various	AGA	37,502		
3	Various	ANDERSON COUNTY CHAMBER OF COMMERCE	3,307		3,307
4	Various	BOWLING GREEN CHAMBER OF COMMERCE	7,500		7,500
5	Various	BRECKINRIDGE COUNTY CHAMBER OF COMMERCE	125		125
6	Various	CADIZ ROTARY CLUB	100		100
7	Various	CADIZ TRIGG COUNTY ECONOMIC DEVELOP COMM	500		500
8	Various	CAMPBELLSVILLE - TAYLOR COUNTY CHAMBER OF COMMERCE	100		100
9	Various	CAVE CITY CHAMBER OF COMMERCE	150		150
10	Various	CHRISTIAN COUNTY CHAMBER OF COMMERCE	1,348		1,348
11	Various	CRITTENDEN COUNTY ECONOMIC	250		250
12	Various	DANVILLE-BOYLE COUNTY CHAMBER OF COMMERCE	370		370
13	Various	FRANKLIN-SIMPSON CHAMBER OF COMMERCE	800		800
14	Various	GARRARD COUNTY CHAMBER	300		300
15	Various	GLASGOW BARREN COUNTY CHAMBER OF COMMERCE	3,825		3,825
16	Various	GRAND RIVERS CHAMBER OF COMMERCE	100		100
17	Various	GREATER MUHLENBERG CHAMBER OF COMMERCE	175		175
18	Various	GREATER OWENSBORO CHAMBER OF COMMERCE	760		760
19	Various	GREATER OWENSBORO ECONOMIC DEVELOPMENT CORP	10,000		10,000
20	Various	GREATER OWENSBORO REALTOR ASSOCIATION	256		256
21	Various	GREENSBURG - GREEN CO. CHAMBER	200		200
22	Various	HART COUNTY CHAMBER OF COMMERCE	200		200
23	Various	HOME BUILDERS ASSOCIATION OF OWENSBORO	420		420
24	Various	HOME BUILDERS ASSOCIATION OF THE BLUEGRASS	335		335
25	Various	HOME BUILDERS ASSOCIATION OF WESTERN KY	1,200		1,200
26	Various	HOPKINS CO. REGIONAL CHAMBER OF COMMERCE	305		305
27	Various	HOPKINS COUNTY HOME BUILDERS ASSOCIATION	295		295
28	Various	HOPKINSVILLE CHRISTIAN AND TODD COUNTY ASSN OF REALTO	150		150
29	Various	HOPKINSVILLE HOME BUILDERS ASSOCIATION	415		415
30	Various	KENTUCKY ASSOCIATION FOR ECONOMIC DEVELOPMENT	5,000		5,000
31	Various	KENTUCKY ASSOCIATION OF MAPPING PROFESSIONALS	25		25
32	Various	KENTUCKY CHAMBER OF COMMERCE	15,490		15,490
33	Various	KENTUCKY COUNTY JUDGE EXECUTIVE ASSOCIATION	200		200
34	Various	KENTUCKY GAS ASSOCIATION	10,720		10,720
35	Various	KENTUCKY OIL AND GAS ASSOCIATION	1,000		1,000
36	Various	KIWANIS CLUB	133		133
37	Various	LAKE BARKLEY CHAMBER OF COMMERCE	255		255
38	Various	LEADERSHIP KENTUCKY	125		125
39	Various	LEADERSHIP SHELBY	30		30
40	Various	LINCOLN COUNTY CHAMBER OF COMMERCE	140		140
41	Various	LOGAN COUNTY CHAMBER OF COMMERCE	750		750
42	Various	LOGAN COUNTY HOME BUILDERS	350		350
43	Various	LOGAN ECONOMIC ALLIANCE FOR DEVELOPMENT	1,000		1,000
44	Various	MARION COUNTY CHAMBER OF COMMERCE	400		400
45	Various	MARSHALL COUNTY CHAMBER OF COMMERCE	500		500
46	Various	MAYFIELD GRAVES COUNTY CHAMBER OF COMMERCE	1,525		1,525
47	Various	MERCER COUNTY CHAMBER OF COMMERCE	500		500
48	Various	NACE INTERNATIONAL	130		130
49	Various	OHIO COUNTY CHAMBER OF COMMERCE	300		300
50	Various	OWENSBORO AREA MUSEUM OF SCIENCE AND HISTORY	250		250
51	Various	OWENSBORO ASSN OF PLUMBING HEATING	100		100
52	Various	PADUCAH AREA CHAMBER OF COMMERCE	975		975
53	Various	PAXTON MEDIA GROUP	163		163
54	Various	PRINCETON / CALDWELL COUNTY CHAMBER OF COMMERCE	500		500
55	Various	PRINCETON CHAMBER OF COMMERCE	60		60
56	Various	SHELBY COUNTY CHAMBER OF COMMERCE	2,999		2,999
57	Various	SOCIETY FOR MARKETING PROFESSIONAL SERVICES	390		390
58	Various	SOUTH WESTERN KENTUCKY ECONOMIC DEVELOPMENT COUN	6,000		6,000
59	Various	SOUTHERN GAS ASSOCIATION	0		0
60	Various	SPRINGFIELD WASHINGTON COUNTY CHAMBER OF COMMERCE	125		125
61	Various	TODD COUNTY COMMUNITY ALLIANCE	250		250
62	Various	TRIGG CO. CHAMBER OF COMMERCE	470		470
63	Various	URBAN & REGIONAL INFORMATION SYSTEMS ASSOCIATION	50		50
		Total Base Period	121,895		84,392

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
SOCIAL and Service CLUB DUES
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X___Base Period___X____Forecasted Period — FR 16(8)(f)
Type of Filing:___X____Original________Updated________Revised — Schedule F-1
Workpaper Reference No(s). — Witness: Waller

Line No.	Account No.	Social Organization/Service Club	Total Utility	Jurisdictional %	Jurisdiction
		TEST PERIOD			
1	Various	JOURNAL ENTRY	0	100%	0
2	Various	AGA	37,502		37,502
3	Various	ANDERSON COUNTY CHAMBER OF COMMERCE	3,307		3,307
4	Various	BOWLING GREEN CHAMBER OF COMMERCE	7,500		7,500
5	Various	BRECKINRIDGE COUNTY CHAMBER OF COMMERCE	125		125
6	Various	CADIZ ROTARY CLUB	100		100
7	Various	CADIZ TRIGG COUNTY ECONOMIC DEVELOP COMM	500		500
8	Various	CAMPBELLSVILLE - TAYLOR COUNTY CHAMBER OF COMMERCE	100		100
9	Various	CAVE CITY CHAMBER OF COMMERCE	150		150
10	Various	CHRISTIAN COUNTY CHAMBER OF COMMERCE	1,348		1,348
11	Various	CRITTENDEN COUNTY ECONOMIC	250		250
12	Various	DANVILLE-BOYLE COUNTY CHAMBER OF COMMERCE	370		370
13	Various	FRANKLIN-SIMPSON CHAMBER OF COMMERCE	800		800
14	Various	GARRARD COUNTY CHAMBER	300		300
15	Various	GLASGOW BARREN COUNTY CHAMBER OF COMMERCE	3,825		3,825
16	Various	GRAND RIVERS CHAMBER OF COMMERCE	100		100
17	Various	GREATER MUHLENBERG CHAMBER OF COMMERCE	175		175
18	Various	GREATER OWENSBORO CHAMBER OF COMMERCE	760		760
19	Various	GREATER OWENSBORO ECONOMIC DEVELOPMENT CORP	10,000		10,000
20	Various	GREATER OWENSBORO REALTOR ASSOCIATION	256		256
21	Various	GREENSBURG - GREEN CO. CHAMBER	200		200
22	Various	HART COUNTY CHAMBER OF COMMERCE	200		200
23	Various	HOME BUILDERS ASSOCIATION OF OWENSBORO	420		420
24	Various	HOME BUILDERS ASSOCIATION OF THE BLUEGRASS	335		335
25	Various	HOME BUILDERS ASSOCIATION OF WESTERN KY	1,200		1,200
26	Various	HOPKINS CO. REGIONAL CHAMBER OF COMMERCE	305		305
27	Various	HOPKINS COUNTY HOME BUILDERS ASSOCIATION	295		295
28	Various	HOPKINSVILLE CHRISTIAN AND TODD COUNTY ASSN OF REALTO	150		150
29	Various	HOPKINSVILLE HOME BUILDERS ASSOCIATION	415		415
30	Various	KENTUCKY ASSOCIATION FOR ECONOMIC DEVELOPMENT	5,000		5,000
31	Various	KENTUCKY ASSOCIATION OF MAPPING PROFESSIONALS	25		25
32	Various	KENTUCKY CHAMBER OF COMMERCE	15,490		15,490
33	Various	KENTUCKY COUNTY JUDGE EXECUTIVE ASSOCIATION	200		200
34	Various	KENTUCKY GAS ASSOCIATION	10,720		10,720
35	Various	KENTUCKY OIL AND GAS ASSOCIATION	1,000		1,000
36	Various	KIWANIS CLUB	133		133
37	Various	LAKE BARKLEY CHAMBER OF COMMERCE	255		255
38	Various	LEADERSHIP KENTUCKY	125		125
39	Various	LEADERSHIP SHELBY	30		30
40	Various	LINCOLN COUNTY CHAMBER OF COMMERCE	140		140
41	Various	LOGAN COUNTY CHAMBER OF COMMERCE	750		750
42	Various	LOGAN COUNTY HOME BUILDERS	350		350
43	Various	LOGAN ECONOMIC ALLIANCE FOR DEVELOPMENT	1,000		1,000
44	Various	MARION COUNTY CHAMBER OF COMMERCE	400		400
45	Various	MARSHALL COUNTY CHAMBER OF COMMERCE	500		500
46	Various	MAYFIELD GRAVES COUNTY CHAMBER OF COMMERCE	1,525		1,525
47	Various	MERCER COUNTY CHAMBER OF COMMERCE	500		500
48	Various	NACE INTERNATIONAL	130		130
49	Various	OHIO COUNTY CHAMBER OF COMMERCE	300		300
50	Various	OWENSBORO AREA MUSEUM OF SCIENCE AND HISTORY	250		250
51	Various	OWENSBORO ASSN OF PLUMBING HEATING	100		100
52	Various	PADUCAH AREA CHAMBER OF COMMERCE	975		975
53	Various	PAXTON MEDIA GROUP	163		163
54	Various	PRINCETON / CALDWELL COUNTY CHAMBER OF COMMERCE	500		500
55	Various	PRINCETON CHAMBER OF COMMERCE	60		60
56	Various	SHELBY COUNTY CHAMBER OF COMMERCE	2,999		2,999
57	Various	SOCIETY FOR MARKETING PROFESSIONAL SERVICES	390		390
58	Various	SOUTH WESTERN KENTUCKY ECONOMIC DEVELOPMENT COUN	6,000		6,000
59	Various	SOUTHERN GAS ASSOCIATION	0		0
60	Various	SPRINGFIELD WASHINGTON COUNTY CHAMBER OF COMMERCE	125		125
61	Various	TODD COUNTY COMMUNITY ALLIANCE	250		250
62	Various	TRIGG CO. CHAMBER OF COMMERCE	470		470
63	Various	URBAN & REGIONAL INFORMATION SYSTEMS ASSOCIATION	50		50
		Total Forecasted Period	121,895		121,895

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
CHARITABLE CONTRIBUTIONS
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X___Base Period___X____Forecasted Period — FR 16(8)(f)
Type of Filing:___X____Original________Updated________Revised — Schedule F-2.1
Workpaper Reference No(s). — Witness: Waller

Line No.	Account No.	Charitable Organization *	Total Utility	Jurisdictional %	Jurisdiction
		BASE PERIOD			
1	Various	Education	$ 23,111	100%	$ 23,111
2	Various	United Way Agencies	$ -		0
3	Various	Health	$ 3,000		3,000
4	Various	Museums & Arts	$ 8,850		8,850
5	Various	Youth Clubs & Centers	$ 11,175		11,175
6	Various	Community Welfare	$ 70,955		70,955
7	Various	American Red Cross	$ -		0
8	Various	Salvation Army	$ 500		500
9	Various	Heat Help Assistance Programs	$178,005		178,005
		Total	$295,596		$ 295,596
		TEST PERIOD			
1	Various	Education	$ 23,111	100%	$ 23,111
2	Various	United Way Agencies	$ -		0
3	Various	Health	$ 3,000		3,000
4	Various	Museums & Arts	$ 8,850		8,850
5	Various	Youth Clubs & Centers	$ 11,175		11,175
6	Various	Community Welfare	$ 70,955		70,955
7	Various	American Red Cross	$ -		0
8	Various	Salvation Army	$ 500		500
9	Various	Heat Help Assistance Programs	$178,005		178,005
		Total	$295,596		$ 295,596

Note: These items are not included in O&M and therefore not part of revenue requirements.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
INITIATION FEES/COUNTRY CLUB Expenses *
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___x___Base Period___x___Forecasted Period — FR 16(8)(f)
Type of Filing:___X____Original________Updated________Revised — Schedule F-2.2
Workpaper Reference No(s). — Witness: Waller

			Base Period			Forecasted Period		
Line No.	Account No.	Payee Organization	Total Utility	Jurisdictional %	Jurisdiction	Total Utility	Jurisdictional %	Jurisdictior
1	Various	Owensboro Country Club (dues)	$ -	100%	$ -	$ -	100%	$ -
2	Various	OCC - Expenses	0		0	0		0
3		Total	$ -		$ -	$ -		$ -

NOTE: Country Club dues will be excluded from O & M and therefore, excluded from the revenue requirements. A/C 870.
NOTE: There are no OCC expenses for the Base Period

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Employee PARTY, OUTING, and GIFT EXP.
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___x___Base Period___X___Forecasted Period — FR 16(8)(f)
Type of Filing:___X____Original_______Updated_______Revised — Schedule F-2.3
Workpaper Reference No(s).____________________ — Witness: Waller

			Base Period			Forecasted Period		
Line No.	Account No.	Description of Expenses	Total Utility	Kentucky Jurisdictional	Allocated Amount	Total Utility	Kentucky Jurisdictional	Allocated Amount
1		**Div 009**						
2	Various	Sub Account 07421- Service Awards	$ -	100%	$ -	$ -	100%	$ -
3								
4		Total	$ -		$ -	$ -		$ -
5								
6		**Div 091**						
7	Various	Sub Account 07421- Service Awards	$ 61,362	50.25%	$ 30,835	$ 54,292	50.25%	$ 27,283
8								
9		Total	$ 61,362		$ 30,835	$ 54,292		$ 27,283
10								
11		**Div 002**						
12	Various	Sub Account 07421- Service Awards	$ 61,517	5.20%	$ 3,200	$ 58,385	5.20%	$ 3,037
13								
14		Total	$ 61,517		$ 3,200	$ 58,385		$ 3,037
15								
16		**Div 012**						
17	Various	Sub Account 07421- Service Awards	$ 29,540	5.67%	$ 1,675	$ 30,343	5.67%	$ 1,721
18								
19		Total	$ 29,540		$ 1,675	$ 30,343		$ 1,721
20								
21		**Grand Total**	$ 152,418		$ 35,710	$ 143,021		$ 32,040

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Customer Service and Informational SALES and General ADVERTISING Expense
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__x___Base Period___x___Forecasted Period — FR 16(8)(f)
Type of Filing:___X____Original________Updated_________Revised — Schedule F-3
Workpaper Reference No(s).____________________ — Witness: Waller

			Base Period			Forecasted Period		
Line No.	Account Number	Description of Expenses	Total Utility	Kentucky Jurisdictional	Allocated Amount	Total Utility	Kentucky Jurisdictional	Allocated Amount
1		**Customer Service and Informational Expenses**						
2								
3		**Div 009**						
4	907	Supervision (1)	$ -	100%	$ -	$ -	100%	$ -
5	908	Customer Assistance	-	100%	-	-	100%	-
6	909	Informational Advertising (1)	134,412	100%	134,412	133,614	100%	133,614
7	910	Miscellaneous Customer Service and Informational (1)	-	100%	-	-	100%	-
8		Total	$ 134,412		$ 134,412	$ 133,614		$ 133,614
9								
10		**Div 091**						
11	907	Supervision (1)	$ -	50.25%	$ -	$ -	50.25%	$ -
12	908	Customer Assistance	-	50.25%	-	-	50.25%	-
13	909	Informational Advertising (1)	-	50.25%	-	-	50.25%	-
14	910	Miscellaneous Customer Service and Informational (1)	1,295	50.25%	651	1,398	50.25%	702
15		Total	$ 1,295		$ 651	$ 1,398		$ 702
16								
17		**Div 002**						
18	907	Supervision (1)	$ -	5.20%	$ -	$ -	5.20%	$ -
19	908	Customer Assistance	-	5.20%	-	-	5.20%	-
20	909	Informational Advertising (1)	-	5.20%	-	-	5.20%	-
21	910	Miscellaneous Customer Service and Informational (1)	47,978	5.20%	2,495	26,162	5.20%	1,361
22		Total	$ 47,978		$ 2,495	$ 26,162		$ 1,361
23								
24		**Div 012**						
25	907	Supervision (1)	$ -	5.67%	$ -	$ -	5.67%	$ -
26	908	Customer Assistance	-	5.67%	-	-	5.67%	-
27	909	Informational Advertising (1)	-	5.67%	-	-	5.67%	-
28	910	Miscellaneous Customer Service and Informational (1)	-	5.67%	-	-	5.67%	-
29		Total	$ -		$ -	$ -		$ -
30								
31		**Sales Expense**						
32								
33		**Div 009**						
34	911	Supervision	$ 255,129	100%	$ 255,129	$ 266,962	100%	$ 266,962
35	912	Demonstration and Selling (1)	117,086	100%	117,086	131,290	100%	131,290
36	913	Advertising	38,737	100%	38,737	45,483	100%	45,483
37	916	Miscellaneous Sales Expense	-	100%	-	-	100%	-
38		Total	$ 410,953		$ 410,953	$ 443,735		$ 443,735
39								
40		**Div 091**						
41	911	Supervision	$ 127,103	50.25%	$ 63,871	$ 123,575	50.25%	$ 62,098
42	912	Demonstration and Selling (1)	847	50.25%	425	914	50.25%	459
43	913	Advertising	641	50.25%	322	692	50.25%	348
44	916	Miscellaneous Sales Expense	0	50.25%	0	0	50.25%	0
45		Total	$ 128,590		$ 64,618	$ 125,180		$ 62,905
46								
47		**Div 002**						
48	911	Supervision	$ -	5.20%	$ -	$ -	5.20%	$ -
49	912	Demonstration and Selling (1)	1,882	5.20%	98	2,309	5.20%	120
50	913	Advertising	-	5.20%	-	-	5.20%	-
51	916	Miscellaneous Sales Expense	-	5.20%	-	-	5.20%	-
52		Total	$ 1,882		$ 98	$ 2,309		$ 120
53								
54		**Div 012**						
55	911	Supervision	$ -	5.67%	$ -	$ -	5.67%	$ -
56	912	Demonstration and Selling (1)	-	5.67%	-	-	5.67%	-
57	913	Advertising	-	5.67%	-	-	5.67%	-
58	916	Miscellaneous Sales Expense	-	5.67%	-	-	5.67%	-
59		Total	$ -		$ -	$ -		$ -

(1) Included in these accounts are advertising and promotional advertising expenses which are considered Non-recoverable and will be Excluded from O & M for ratemaking and therefore the Revenue Requirements. These amounts are shown properly classified on Schedule F-4, Advertising.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
ADVERTISING
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__x___Base Period___x___Forecasted Period — FR 16(8)(f)
Type of Filing:___X____Original________Updated________Revised — Schedule F-4
Workpaper Reference No(s). — Witness: Waller

		Base Period					Forecasted Period		
Line No.	Item (A)	Sales or Promotional Advertising	Safety or Req by Law Advertising	Total Utility	Kentucky Jurisdictional	Allocated Amount	Sales or Promotional Advertising	Kentucky Jurisdictional	Allocated Amount
1	**Div 009**								
2	Newspaper, Magazine,bill stuffer & Other	$ 76,812	$ 9,020	$ 85,832	100%	$ 85,832	$ 76,812	100%	$ 76,812
3									
4	**Div 091**								
5	Newspaper, Magazine,bill stuffer & Other	8,017	299,672	307,689	50.25%	154,618	8,017	50.25%	4,028
6									
7	**Div 002**								
8	Newspaper, Magazine,bill stuffer & Other	111,116	-	111,116	5.20%	5,779	111,116	5.20%	5,779
9									
10	**Div 012**								
11	Newspaper, Magazine,bill stuffer & Other	812	-	812	5.67%	46	812	5.67%	46
12									
13	**Grand Total**	$ 196,757	$ 308,692	$ 505,449		$ 246,275	$ 196,757		$ 86,665

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
PROFESSIONAL Service Expenses
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__x___Base Period___x___Forecasted Period — FR 16(8)(f)
Type of Filing:___X_____Original________Updated________Revised — Schedule F-5
Workpaper Reference No(s).____________________ — Witness: Waller

		Base Period			Forecasted Period		
Line No.	Description	Total Utility	Kentucky Jurisdictional	Allocated Amount	Total Utility	Kentucky Jurisdictional	Allocated Amount
	Account 923 - Outside Services Employed						
1							
2	Div 009						
3	06111- Contract Labor	$ -	100%	$ -	$ -	100%	$ -
4	06121- Legal	$ 64,811	100%	64,811	$ 74,067	100%	74,067
5	Total	$ 64,811		$ 64,811	$ 74,067		$ 74,067
6							
7	Div 091						
8	06111- Contract Labor	$ 48,299	50.25%	$ 24,271	$ 86,409	50.25%	$ 43,422
9	06121- Legal	$ 216,209	50.25%	108,648	$ 386,807	50.25%	194,376
10	Total	$ 264,508		$ 132,919	$ 473,215		$ 237,797
11							
12	Div 002						
13	06111- Contract Labor	$ 19,328,967	5.20%	$1,005,303	$10,420,381	5.20%	$ 541,966
14	06121- Legal	$ 207,346	5.20%	10,784	$ 111,782	5.20%	5,814
15	Total	$ 19,536,313		$1,016,087	$10,532,163		$ 547,779
16							
17	Div 012						
18	06111- Contract Labor	$ 606,159	5.67%	$ 34,375	$ 470,991	5.67%	$ 26,709
19	06121- Legal	$ -	5.67%	-	$ -	5.67%	-
20	Total	$ 606,159		$ 34,375	$ 470,991		$ 26,709

Note: Rate Case related expenses are shown separately on Schedule F-6.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Projected Rate Case Expense

Data:__X___Base Period__X___Forecasted Period — FR 16(8)(f)
Type of Filing:___X____Original________Updated ________Revised — Schedule F-6
Workpaper Reference No(s). — Witness: Waller

Line No.	Description		Amount
1	**Consulting**		
2	Class Cost Study - P. Raab	$ 16,997	
3	Cost of Capital - Vander Weide, J. H.	30,058	
4	Depreciation - D. Watson	0	
5	sub-total		$ 47,055
6			
7	**Legal Fees**		
8	(J. Hughes/R. Hutchinson)		124,287
9			
10	**Employee Expense**		
11	(airfare, lodging, meals, etc.)		11,654
12			
13	**Miscellaneous Expense**		
14	(printing, advertising, etc.)		130,888
15			
16	**Total Projected Rate Case Expense**		$ 313,884
17			
18	**Two (2) Year Amortization of Rate Case Expenses**		$ 156,942

Data Source:
F.6 Schedule Rate Case Expenses.xls

Rate Case (2 year Amortization)

	Regulated Asset Balance	Amortization Expense
Mar-18	313,884	0
Apr-18	300,806	13,079
May-18	287,727	13,079
Jun-18	274,649	13,079
Jul-18	261,570	13,079
Aug-18	248,492	13,079
Sep-18	235,413	13,079
Oct-18	222,335	13,079
Nov-18	209,256	13,079
Dec-18	196,178	13,079
Jan-19	183,099	13,079
Feb-19	170,021	13,079
Mar-19	156,942	13,079
	235,413	156,942
	(13 Month Average)	
Apr-19	143,864	13,079
May-19	130,785	13,079
Jun-19	117,707	13,079
Jul-19	104,628	13,079
Aug-19	91,550	13,079
Sep-19	78,471	13,079
Oct-19	65,393	13,079
Nov-19	52,314	13,079
Dec-19	39,236	13,079
Jan-20	26,157	13,079
Feb-20	13,079	13,079
Mar-20	0	13,079

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
CIVIC, POLITICAL and RELATED ACTIVITIES
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__x___Base Period___x___Forecasted Period — FR 16(8)(f)
Type of Filing:___X____Original________Updated________Revised — Schedule F-7
Workpaper Reference No(s). — Witness: Waller

		Base Period			Forecasted Period		
Line No.	Item (A)	Total Utility	Kentucky Jurisdictional	Allocated Amount	Total Utility	Kentucky Jurisdictional	Allocated Amount
1	**Div 009**						
2	Donations (1)	$ -	100%	$ -	$ -	100%	$ -
3	Civic Duties (2)	-	100%	-	-	100%	-
4	Political Activities (3)	75,000	100%	75,000	75,000	100%	75,000
5	Other	-	100%	-	-	100%	-
6	Total	$ 75,000		$ 75,000	$ 75,000		$ 75,000
7							
8	**Div 091**						
9	Donations (1)	$ -	50.25%	$ -	$ -	50.25%	$ -
10	Civic Duties (2)	-	50.25%	-	-	50.25%	-
11	Political Activities (3)	4,404	50.25%	2,213	4,404	50.25%	2,213
12	Other	-	50.25%	-	-	50.25%	-
13	Total	$ 4,404		$ 2,213	$ 4,404		$ 2,213
14							
15	**Div 002**						
16	Donations (1)	$ -	5.20%	$ -	$ -	5.20%	$ -
17	Civic Duties (2)	-	5.20%	-	-	5.20%	-
18	Political Activities (3)	655,809	5.20%	34,109	655,809	5.20%	34,109
19	Other	-	5.20%	-	-	5.20%	-
20	Total	$655,809		$ 34,109	$ 655,809		$ 34,109
21							
22	**Div 012**						
23	Donations (1)	$ -	5.67%	$ -	$ -	5.67%	$ -
24	Civic Duties (2)	-	5.67%	-	-	5.67%	-
25	Political Activities (3)	-	5.67%	-	-	5.67%	-
26	Other	-	5.67%	-	-	5.67%	-
27	Total	$ -		$ -	$ -		$ -
28							
29	**Grand Total**	$735,213		$111,322	$ 735,213		$ 111,322

Notes:
(1) These donations represent Economic Development Contributions, all Other civic donations are Included on Schedule F-2.1, Charitable Contributions.

(2) All civic Memberships are Included on Schedule F-1, Social and Service Club Dues.

(3) These expenses are recorded below the line and therefore not included in O&M.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
EMPLOYEE EXPENSE REPORT EXCLUSIONS

Data:__x___Base Period___x___Forecasted Period — FR 16(8)(f)
Type of Filing:___X_____Original________Updated________Revised — Schedule F-8
Workpaper Reference No(s).____________________ — Witness: Waller

		Base Period			Forecasted Period		
Line No.	Description	Amount	Kentucky Jurisdictional	Allocated Amount	Amount	Kentucky Jurisdictional	Allocated Amount
1	Div 009	$ 21,173	100.00%	$ 21,173	$ 21,173	100%	$ 21,173
2							
3	Div 091	43,047	50.25%	21,632	43,047	50.25%	21,632
4							
5	Div 002	289,966	5.20%	15,081	289,966	5.20%	15,081
6							
7	Div 012	81,857	5.67%	4,642	81,857	5.67%	4,642
8							
9	Total Expense Report Exclusions	$ 436,043		$ 62,528	$436,043		$ 62,528

NOTE: This amount is included on ratemaking adjustments on Schedule C-2 and therefore excluded from the Revenue Requirement

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
LEASE EXPENSE

Data:__x___Base Period___x___Forecasted Period FR 16(8)(f)
Type of Filing:___X_____Original________Updated________Revised Schedule F-9
Workpaper Reference No(s).____________________ Witness: Waller

Line No.	Description	Monthly	Period affected	months	O&M factor	Total Amount
	Division 009 - Direct Kentucky					
1	There are no lease expenses avoided in this filing					
2						
3	Total lease expense to be avoided					$ -
4						
5	Adjustment to O & M					$ -

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
INCENTIVE COMPENSATION EXPENSE

Data:__x___Base Period___x___Forecasted Period — FR 16(8)(f)
Type of Filing:___X_____Original________Updated________Revised — Schedule F-10
Workpaper Reference No(s).____________________ — Witness: Waller

Line No.	Div	Category	Total	Allocation Factor	Allocated Totals
Variable Pay & Management Incentive Plans					
1	2	VPP & MIP	9,109,980	5.20%	473,811
2	12	VPP & MIP	0	5.67%	0
3	91	VPP & MIP	907,961	50.25%	456,263
4	9	VPP & MIP	0	100.00%	0
5		Total Allocated VPP & MIP Plans			930,074
Restricted Stock Plans					
6	2	RSU-LTIP - Time Lapse	3,117,259	5.20%	162,129
7		RSU-LTIP - Performance Based	3,126,816	5.20%	162,626
8	12	RSU-LTIP - Time Lapse	111,594	5.67%	6,328
9		RSU-LTIP - Performance Based	167,660	5.67%	9,508
10	91	RSU-LTIP - Time Lapse	117,037	50.25%	58,813
11		RSU-LTIP - Performance Based	61,703	50.25%	31,006
12	9	RSU-LTIP - Time Lapse	33,785	100.00%	33,785
13		RSU-LTIP - Performance Based	13,683	100.00%	13,683
14		Total Allocated Restricted Stock Plans			477,878
15		Grand Total Allocated Expense			1,407,953

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
PAYROLL Costs
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__X___Base Period___X___Forecasted Period
Type of Filing:___X____Original________Updated
Workpaper Reference No(s).

FR 16(8)(g)
Schedule G-1
Witness: Waller

Line No.	Description	% of Labor	Total Company Unadjusted	Jurisdictional	Base Period Jurisdictional Unadjusted	Adjustments	Forecasted Period Jurisdictional ADJUSTED
1	Payroll Costs						
2	Labor		$ 12,204,318	100.00%	$ 12,204,318	$ 452,803	$ 12,657,121
3							
4	Employee Benefits						
5	PENSION & RETIREMENT Income Plan	4.09%	$ 499,109	100.00%	$ 499,109	$ 18,518	$ 517,627
6	FAS 106	5.01%	569,560	100.00%	569,560	(194,656)	374,905
7	Employee INSURANCE PLANS	20.10%	2,453,521	100.00%	2,453,521	91,030	2,544,551
8	ESOP PLAN Contributions	7.56%	922,449	100.00%	922,449	34,225	956,674
9				100.00%	0	0	
10	Total Employee BENEFITS		$ 4,444,640		$ 4,444,640	$ (50,883)	$ 4,393,757
11							
12	Payroll Taxes						
13	F.I.C.A.		$ 875,681	100.00%	$ 875,681	$ 62,237	$ 937,918
14	Federal Unemployment		$ 15,730	100.00%	15,730	1,203	$ 16,933
15	State Unemployment		$ 11,538	100.00%	11,538	864	$ 12,402
16	Total Payroll Taxes		$ 902,948		$ 902,948	$ 64,304	$ 967,252
17							
18	Total Payroll Costs		$ 17,551,905		$ 17,551,905	$ 466,225	$ 18,018,130

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Payroll Analysis by Employee Classifications/Payroll Distribution/Total Company
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period
Type of Filing:___X_____Original________Updated
Workpaper Reference No(s).

FR 16(8)(g)
Schedule G-2
Witness: Waller

		Most Recent Five Fiscal Years*												
Line No.	Description	2012	% Change	2013	% Change	2014	% Change	2015	% Change	2016	% Change	Base Period	% Change	Forecasted Period
1														
2														
3	Man Hours													
4	Straight Time Hours	437,473	-6.09%	410,825	-0.16%	410,171	-0.16%	409,514	10.73%	417,832	8.52%	453,440	0.00%	453,440
5	OverTime Hours	18,161	1.72%	18,473	15.01%	21,246	6.62%	22,653	13.28%	24,169	6.18%	25,661	0.00%	25,661
6	Total Manhours	455,634	-5.78%	429,298	0.49%	431,417	0.17%	432,167	10.86%	442,001	8.39%	479,101	0.00%	479,101
7	Ratio of OverTime Hours													
8	to Straight-Time Hours	4.151%		4.497%		5.180%		5.532%		5.784%		5.659%		5.659%
9														
10	Labor Dollars													
11	Straight-Time Dollars	9,862,636	6.11%	10,464,861	1.29%	10,599,619	3.54%	10,974,506	5.89%	11,761,379	-4.31%	11,254,150	3.26%	11,620,882
12	OverTime Dollars	585,480	12.33%	657,642	15.99%	762,824	9.91%	838,415	23.59%	932,823	1.86%	950,167	9.06%	1,036,238
13	Total Labor Dollars	10,448,116	6.45%	11,122,503	2.16%	11,362,443	3.96%	11,812,921	7.15%	12,694,202	-3.86%	12,204,318	3.71%	12,657,121
14	Ratio of OverTime Dollars													
15	to Straight-Time Dollars	5.936%		6.284%		7.197%		7.640%		7.931%		8.443%		8.917%
16														
17	O&M Labor Dollars	4,728,247	7.74%	5,094,063	-1.84%	5,000,231	1.61%	5,080,812	-1.28%	5,185,743	-3.81%	4,988,282	0.55%	5,015,768
18	Ratio of O&M of Labor Dollars													
19	to Total Labor Dollars	45.255%		45.800%		44.007%		43.011%		40.851%		40.873%		39.628%
20														
21	Employee Benefits													
22	Total Employee Benefits	4,453,878	36.12%	6,062,525	1.42%	6,148,916	-14.27%	5,271,508	-16.65%	4,546,845	-2.25%	4,444,640	-1.14%	4,393,757
23	Employee Benefits Expensed	2,157,841	37.75%	2,972,341	-5.54%	2,807,746	-18.40%	2,291,156	-24.01%	1,929,818	-5.86%	1,816,658	-4.16%	1,741,158
24	Ratio of Employee Benefits													
25	Expensed to Total Employee													
26	Benefits	48.449%		49.028%		45.662%		43.463%		42.443%		40.873%		39.628%
27														
28	Payroll Taxes													
29	Total Payroll Taxes	889,257	-5.21%	842,968	32.66%	1,118,268	-19.88%	895,950	7.96%	991,045	-8.89%	902,948	7.12%	967,252
30	Payroll Taxes Expensed	338,313	-0.97%	335,033	0.08%	335,294	4.12%	349,097	9.80%	377,118	-2.14%	369,062	3.86%	383,303
31	Ratio of Payroll Taxes													
32	Expensed to Total Payroll													
33	Taxes	38.044%		39.744%		29.983%		38.964%		38.053%		40.873%		39.628%
34														
35	Employee Levels													
36	Average Employee Levels	209	0.96%	211	0	215	-1.86%	211	1.90%	215	1.40%	218	0.00%	218
37	Year end Employee Levels	209	1.91%	213	0	218	-2.29%	213	2.35%	218	0.00%	218	0.00%	218

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Executive Compensation
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__X___Base Period___X___Forecasted Period — FR 16(8)(g)
Type of Filing:___X____Original________Updated — Schedule G-3
Workpaper Reference No(s).____________________ — Witness: Waller

Line No.	Description	% of Labor			Base Period Company Unallocated	Adjustments	Forecasted Period Company Unallocated
1	Includes 7 Officers						
2							
3	Gross Payroll						
4	Salary				$ 2,988,233	$ 119,529	$ 3,107,762
5	Other Allowances and Compensation				7,179,964	287,199	$ 7,467,162
6	Total Salary and Compensation				$ 10,168,197	$ 406,728	$ 10,574,924
7							
8	Employee Benefits	FY16	FY17	Wtd Avg			
9	Pensions	7.40%	6.00%	6.35%	$ 189,753	$ 7,590	$ 197,343
10	SERP				$ 4,157,744	166,310	$ 4,324,054
11	Other Benefits	27.70%	28.00%	27.93%	834,464	33,379	867,843
12	Total Employee Benefits				$ 5,181,961	$ 207,278	$ 5,389,239
13							
14	Payroll Taxes						
15	FICA/FUTA/SUTA				$ 254,050	$ 10,162	$ 264,212
16	Total Payroll Taxes				$ 254,050	$ 10,162	$ 264,212
17							
18	Total Compensation				$ 15,604,208	$ 624,168	$ 16,228,376

NOTE: This schedule contains confidential information, detail of these numbers are available upon request.

Positions included on this schedule are:
CEO
SVP, Utility Operations (created in January 2017)
SVP, General Counsel (vacant from Mar17-Jul17, filled in Aug-17)
President and COO
SVP, CFO
SVP, Safety and Enterprise
SVP, Human Resources (created in January 2017)

These costs are total costs for Atmos Energy Corporation, a portion of which are allocated to Kentucky.
*Wtd Avg is 9 mos of FY17 and 3 months of FY16

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Computation of Gross Revenue Conversion Factor
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__X___Base Period___X___Forecasted Period — FR 16(8)(h)
Type of Filing:___X____Original________Updated ________Revised — Schedule H-1
Workpaper Reference No(s). — Witness: Waller

Line No.	Description		**Base Year** Percentage of Incremental Gross Revenue	**Test Year** Percentage of Incremental Gross Revenue
1	Operating Revenue		100.000000%	100.000000%
2	Less: Uncollectible Accounts Expense		0.500000%	0.500000%
3	Less: PSC Fees		0.199600%	0.199600%
4	Net Revenues		99.300400%	99.300400%
5	SIT Rate	6.00%	5.958024%	5.958024%
6	Income before Federal Income Tax		93.342376%	93.342376%
7	Federal Income Tax @	21%	19.601900%	19.601900%
8	Operating Income Percentage		73.740476%	73.740476%
9	Gross Revenue Conversion Factor			
10	(100 % divided by Income after Income Tax)		1.356107	1.356107

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Comparative Income Statement
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period — FR 16(8)(i)1
Type of Filing:___X____Original________Updated ________Revised — Schedule I
Workpaper Reference No(s).____________________ — Witness: Gillham, Waller, Martin

	Most Recent Five Calendar Years					Base Year	Test Year			
	2012	2013	2014	2015	2016	12/31/2017	3/31/2019	2019	2020	2021
INCOME STATEMENT	$	$	$	$		$	$	$	$	$
Operating Revenues										
Gas service revenue	121,689	148,865	180,147	153,228	129,827	137,671	151,149	150,716	149,327	149,158
Transportation	11,315	12,587	14,311	15,087	15,748	15,831	15,202	15,202	15,202	15,202
Other revenue	1,774	1,517	2,424	2,153	1,857	3,211	4,378	4,375	4,363	4,361
Total Operating Revenues	134,778	162,968	196,882	170,468	147,431	156,713	170,729	170,293	168,892	168,721
Purchase gas	70,663	94,657	118,107	87,746	61,180	65,546	78,709	78,236	76,749	76,482
Gross Profit	64,115	68,311	78,774	82,721	86,251	91,167	92,020	92,057	92,143	92,239
Operating Expenses										
Direct O&M	12,980	14,377	14,815	14,927	14,518	13,436	12,152	17,267	17,484	17,707
Allocated O&M	10,086	11,534	12,036	12,874	12,708	13,526	14,012	10,868	11,079	11,463
Depreciation & amortization	13,981	14,919	16,846	18,636	19,121	18,850	21,512	23,286	26,472	30,012
Taxes - other than income	4,317	3,871	4,648	7,343	5,919	4,830	6,566	7,349	8,469	9,714
Total Operating Expenses	41,364	44,701	48,344	53,779	52,266	50,642	54,242	58,770	63,504	68,896
Operating income(loss)	22,751	23,610	30,430	28,942	33,985	40,525	37,778	33,287	28,639	23,343
Other income										
Interest Income	64	83	69	40	42	42	42	52	46	41
Performance based rates	2,702	2,659	2,705	2,795	2,792	2,792	2,792	2,500	2,500	2,500
Donations	(329)	(194)	(299)	(427)	(355)	(355)	(355)	(355)	(355)	(355)
Other Income	(391)	(514)	(456)	(344)	(391)	(391)	(391)	(351)	(350)	(350)
Total other income	2,704	2,421	2,617	2,917	2,797	2,087	2,087	1,846	1,841	1,836
Interest Charges										
Total interest charges	5,511	6,436	6,419	6,744	7,377	8,070	9,855	9,234	9,911	11,132
Income Before Taxes	19,944	19,595	26,628	25,116	29,404	34,542	30,010	25,899	20,568	14,048
Provision for income taxes	5,350	7,420	9,672	9,884	9,516	8,891	7,725	6,666	5,294	3,616
Net Income	14,594	12,175	16,956	15,231	19,888	25,651	22,286	19,232	15,274	10,432

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Revenue Statistics
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period
Type of Filing:___X_____Original________Updated
Workpaper Reference No(s).____________________

FR 16(8)(i)2
Schedule I
Witness: Gillham, Martin

Line No.	Description	Most Recent Five Calendar Years 2012	2013	2014	2015	2016	Base Period 12/31/2017	Forecasted Period 3/31/2019	Three Projected Calendar Years 2019	2020	2021
1	Revenue by Customer Class:										
2	Residential	$ 78,630,275	$ 96,055,210	$ 115,327,134	$ 97,211,019	$ 85,596,832	$ 87,967,889	$ 98,377,919	$ 98,211,508	$ 97,443,625	$ 97,406,846
3	Commercial	31,478,562	39,938,784	49,294,804	42,476,905	34,032,004	36,918,737	40,637,064	$ 40,456,028	$ 40,007,808	$ 39,910,196
4	Industrial	4,926,385	4,796,885	5,845,776	5,705,427	4,441,439	6,716,991	5,286,755	$ 5,232,281	$ 5,149,117	$ 5,133,564
5	Public Authority & Other	6,653,819	8,073,794	9,679,607	7,834,566	5,756,388	6,067,818	6,847,372	$ 6,816,056	$ 6,726,693	$ 6,706,910
6	Unbilled										
7	Total	$ 121,689,041	$148,864,673	$ 180,147,322	$ 153,227,918	$ 129,826,663	$137,671,435	$151,149,111	$ 150,715,873	$ 149,327,243	$ 149,157,516
8	Number of Customer by Class:										
9	Residential	153,904	155,702	155,281	155,597	156,174	156,822	157,197	157,347	157,647	157,947
10	Commercial	17,318	17,435	17,333	17,339	17,354	17,419	17,419	17,419	17,419	17,419
11	Industrial	207	204	201	205	206	212	212	212	212	212
12	Public Authority & Other	1,575	1,576	1,561	1,550	1,549	1,549	1,549	1,549	1,549	1,549
13	Total	173,004	174,917	174,376	174,692	175,282	176,001	176,376	176,526	176,826	177,126
14	Average Revenue per Class:										
15	Residential	$ 511	$ 617	$ 743	$ 625	$ 548	$ 561	$ 626	$ 624	$ 618	$ 617
16	Commercial	1,818	2,291	2,844	2,450	1,961	2,120	2,333	2,323	2,297	2,291
17	Industrial	23,809	23,553	29,059	27,786	21,578	31,742	24,983	24,726	24,333	24,260
18	Public Authority & Other	4,224	5,122	6,202	5,055	3,717	3,918	4,422	4,401	4,344	4,331

(1) Unbilled Revenue is not included in the appropriate customer class.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
SALES STATISTICS
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:___X____Base Period___X____Forecasted Period — FR 16(8)(i)3
Type of Filing:___X_____Original________Updated — Schedule I
Workpaper Reference NO(S).____________________ — Witness: Gillham, Martin

Line No.	Description	Most Recent Five Calendar Years 2012	2013	2014	2015	2016	Base Period 12/31/2017	Forecasted Period 3/31/2019	Three Projected Calendar Years 2019	2020	2021
		Mcf	Mcf	Mcf	Mcf		Mcf	Mcf	Mcf	Mcf	
1	Sales by Customer Class:										
2	Residential	8,369,578	10,662,876	11,757,007	10,133,138	8,859,272	9,997,160	10,026,386	10,030,146	10,049,272	10,068,399
3	Commercial	3,946,440	5,112,548	5,657,641	4,981,322	4,436,288	4,895,832	4,895,832	4,895,832	4,895,832	4,895,832
4	Industrial	995,095	807,006	780,039	706,192	1,021,718	972,670	972,670	972,670	972,670	972,670
5	Public Authority & Other	967,627	1,185,264	1,241,310	1,055,743	896,168	963,107	963,107	963,107	963,107	963,107
6	Unbilled										
7											
8	Total	14,278,739	17,767,695	19,435,997	16,876,396	15,213,446	16,828,769	16,857,995	16,861,756	16,880,882	16,900,008
9											
10	Number of Customer by Class:										
11	Residential	153,904	155,702	155,281	155,597	156,174	156,822	157,197	157,347	157,647	157,947
12	Commercial	17,318	17,435	17,333	17,339	17,354	17,419	17,419	17,419	17,419	17,419
13	Industrial	207	204	201	205	206	212	212	212	212	212
14	Public Authority & Other	1,575	1,576	1,561	1,550	1,549	1,549	1,549	1,549	1,549	1,549
15											
16	Total	173,004	174,917	174,376	174,692	175,282	176,001	176,376	176,526	176,826	177,126
17											
18	Average Volume per Class:										
19	Residential	54	68	76	65	57	64	64	64	64	64
20	Commercial	228	293	326	287	256	281	281	281	281	281
21	Industrial	4,809	3,962	3,878	3,439	4,964	4,597	4,597	4,597	4,597	4,597
22	Public Authority & Other	614	752	795	681	579	622	622	622	622	622

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Cost of Capital Summary
Base Period: Twelve Months Ended December 31, 2017

FR 16(8)(j)
Schedule J-1
Sheet 1 of 1
Witness: Christian

Data:__X___Base Period______Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).____________________

Line No.	Class of Capital	Workpaper Reference (A)	Amount (B) $000	Percent of Total (C) %	Cost Rate (D) %	Weighted Cost (E) %
	Capital Structure					
6	SHORT-TERM DEBT	J-3	$ 242,504	3.36%	1.99%	0.07%
7	LONG-TERM DEBT	J-3	3,066,734	42.53%	5.13%	2.18%
8	PREFERRED STOCK	J-4	0	0.00%	0.00%	0.00%
9	COMMON EQUITY		$ 3,901,710	54.11%	10.30%	5.57%
10	Total Capital		$ 7,210,949	100.00%		7.82%

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
ANNUALIZED SHORT-TERM DEBT
as of December 31, 2017

FR 16(8)(j)
Schedule J-2
Sheet 1 of 1
Witness: Christian

Data:__X___Base Period______Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).____________________

Line No.	Issue	Amount Outstanding	(1) Interest Rate	Effective Annual Cost	Composite Interest Rate
	(A)	(B) $000	(C)	(D) $000	(E=D/B)
1	AVERAGE SHORT-TERM DEBT	$ 242,504	0.916%	$ 2,221	
2	COMMITMENT FEE & BANK ADMIN			$ 2,604	
3	TOTAL SHORT-TERM DEBT	$ 242,504		$ 4,825	1.99%

NOTES:

(1) Interest Rate is the actual average rate for 12 Months Ended June 30, 2017

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
AVERAGE ANNUALIZED LONG-TERM DEBT
Base Period: Twelve Months Ended December 31, 2017

Data:__X___Base Period______Forecasted Period — FR 16(8)(j)
Type of Filing:___X____Original________Updated ________Revised — Schedule J-3
Workpaper Reference No(s).____________________ — Witness: Christian

Line No.	Issue (A)	13 Mth Avg. Amount Outstanding (B)	Interest Rate (C)	Effective Annual Cost (D)	Composite Interest Rate (E=D/B)
1	6.75% Debentures Unsecured due July 2028	$ 150,000,000	6.75%	$10,125,000	
2	6.67% MTN A1 due Dec 2025	10,000,000	6.67%	667,000	
3	5.95% Sr Note due 10/15/2034	200,000,000	5.95%	11,900,000	
4	6.35% Sr Note due 6/15/2017	0	6.35%	0	
5	Sr Note 5.50% Due 06/15/2041	400,000,000	5.50%	22,000,000	
6	8.50% Sr Note due 3/15/2019	450,000,000	8.50%	38,250,000	
7	4.15% Sr Note due 1/15/2043	500,000,000	4.15%	20,750,000	
8	4.125% Sr Note due 10/15/2044	750,000,000	4.13%	30,937,500	
9	3% Sr Note dues 6/15/2027	500,000,000	3.00%	15,000,000	
10	$200MM 3YR Sr Credit Facility (Est. 9/22/16)	125,000,000	2.19%	2,737,500	
11	Total	$ 3,085,000,000		$152,367,000	
12					
13	Annualized Amortization of Debt Exp. & Debt Dsct.			$4,955,311	
14	Less Unamortized Debt Discount	$4,370,288			
15	Less Unamortized Debt Expenses	($22,636,092)			
16					
17					
18					
19	Total LONG-TERM DEBT	$3,066,734,195.75		157,322,311	**5.13%**

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
EMBEDDED Cost of PREFERRED STOCK

FR 16(8)(j)
Schedule J-4
Sheet 1 of 1
Witness: Christian

Data:__X___Base Period__X___Forecasted Period
Type of Filing:___X____Original________Updated
Workpaper Reference No(s).____________________

Line No.	Dividend Rate, TYPE, PAR Amount	Date Issued (A)	Amount Outstanding (B)	Premium or Discount (C)	Issue Expense (D)	Gain or Loss on Reacquired Stock (E)	Net Proceeds (F=B+C-D+E)	Cost Rate At Issue (G)	Annualized Dividends (H=GXB)

Atmos Energy Corporation has no PREFERRED STOCK OUTSTANDING at this time.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
13 Month Average Capital Structure
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

Data:__X___Base Period___X___Forecasted Period | FR 16(8)(j)
Type of Filing:___X____Original________Updated ________Revised | Schedule J-1
Workpaper Reference No(s).____________________ | Witness: Christian

PROPOSED RATES

Line No.	Class of Capital	Workpaper Reference	Base Period Amount	Base Period Percent of Total	Base Period Cost Rate	Base Period Weighted Cost	Forecasted Period Amount	Forecasted Period Percent of Total	Forecasted Period Cost Rate	Forecasted Period Weighted Cost
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
			$000	%	%	%	$000	%	%	%
1	SHORT-TERM DEBT		242,504	3.36%	1.99%	0.07%	242,504	3.48%	1.99%	0.07%
2	LONG-TERM DEBT		3,066,734	42.53%	5.13%	2.18%	3,066,734	43.95%	5.09%	2.24%
3	Total DEBT		3,309,239	45.89%		2.25%	3,309,239	47.43%		2.31%
4	PREFERRED STOCK		0	0.00%	0.00%	0.00%	0	0.00%	0.00%	0.00%
5	COMMON EQUITY		3,901,710	54.11%	10.30%	5.57%	3,668,227	52.57%	10.30%	5.41%
6	Other Capital		0	0.00%	0.00%	0.00%	0	0.00%	0.00%	0.00%
7	Total Capital		7,210,949	100.00%		7.82%	6,977,466	100.00%		7.72%

CURRENT RATES

Line No.	Class of Capital	Workpaper Reference	Base Period Amount	Base Period Percent of Total	Base Period Cost Rate	Base Period Weighted Cost	Forecasted Period Amount	Forecasted Period Percent of Total	Forecasted Period Cost Rate	Forecasted Period Weighted Cost
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
			$000	%	%	%	$000	%	%	%
8	SHORT-TERM DEBT		242,504	3.36%	1.99%	0.07%	242,504	3.48%	1.99%	0.07%
9	LONG-TERM DEBT		3,066,734	42.53%	5.13%	2.18%	3,066,734	43.95%	5.09%	2.24%
10	Total DEBT		3,309,239	45.89%		2.25%	3,309,239	47.43%		2.31%
11	PREFERRED STOCK		0	0.00%	0.00%	0.00%	0	0.00%	0.00%	0.00%
12	COMMON EQUITY		3,901,710	54.11%	12.41%	6.72%	3,668,227	52.57%	9.23%	4.85%
13	Other Capital		0	0.00%	0.00%	0.00%	0	0.00%	0.00%	0.00%
14	Total Capital		7,210,949	100.00%		8.96%	6,977,466	100.00%		7.16%

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Cost of Capital Summary
Thirteen Month Average as of March 31, 2019

Data:_____Base Period___X___Forecasted Period — FR 16(8)(j)
Type of Filing:___X____Original________Updated ________Revised — Schedule J-1
Workpaper Reference No(s).____________________ — Witness: Christian

Line No.	Class of Capital	Workpaper Reference	Amount	Percent of Total	Cost Rate	Weighted Cost
		(A)	(B)	(C)	(D)	(E)
			$000		%	%
	Capital Structure					
6	SHORT-TERM DEBT		$ 242,504	3.5%	1.99%	0.07%
7	LONG-TERM DEBT	J-3	3,066,734	44.0%	5.09%	2.24%
8	PREFERRED STOCK	J-4	0	0.0%	0.00%	0.00%
9	COMMON EQUITY		$ 3,668,227	52.6%	10.30%	5.41%
10	Total Capital		$ 6,977,466	100.0%		7.72%

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
AVERAGE ANNUALIZED SHORT-TERM DEBT
as of March 31, 2019

Data:_____Base Period___X___Forecasted Period — FR 16(8)(j)
Type of Filing:___X____Original________Updated ________Revised — Schedule J-2
Workpaper Reference No(s).____________________ — Witness: Christian

	Issue	Amount Outstanding	Interest Rate	Effective Annual Cost	Composite Interest Rate
	(A)	(B)	(C)	(D)	(E=D/B)
		$000		$000	
1	AVERAGE SHORT-TERM DEBT (1)	242,504	0.9159%	2,221	
2	COMMITMENT FEE			2,604	
3	TOTAL SHORT-TERM DEBT	242,504		4,825	1.99%

NOTES:

(1) Interest Rate is the actual average rate for 12 Months Ended June 30, 2017.

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
AVERAGE ANNUALIZED LONG-TERM DEBT
Forecasted Test Period: Twelve Months Ended March 31, 2019

FR 16(8)(j)
Schedule J-3
Sheet 1 of 1
Witness: Christian

Data:_____Base Period___X___Forecasted Period
Type of Filing:___X____Original________Updated ________Revised
Workpaper Reference No(s).____________________

Line No.	Issue	13 Mth Average Amount Outstanding	Interest Rate	Effective Annual Cost	Composite Interest Rate	
	(A)	(B)	(C)	(D)	(E=D/B)	
1	6.75% Debentures Unsecured due July 2028	$ 150,000,000	6.75%	$ 10,125,000		
2	6.67% MTN A1 due Dec 2025	10,000,000	6.67%	667,000		
3	5.95% Sr Note due 10/15/2034	200,000,000	5.95%	11,900,000		
4	6.35% Sr Note due 6/15/2017	0	6.35%	-		
5	Sr Note 5.50% Due 06/15/2041	400,000,000	5.50%	22,000,000		
6	8.50% Sr Note due 3/15/2019	450,000,000	8.31%	37,395,000		
7	4.15% Sr Note due 1/15/2043	500,000,000	4.15%	20,750,000		
8	4.125% Sr Note due 10/15/2044	750,000,000	4.13%	30,937,500		
9	3% Sr Note due 6/15/2027	500,000,000	3.00%	15,000,000		
10	$200MM 3YR Sr Credit Facility (Est. 9/22/16)	125,000,000	1.82%	2,271,389		
11	Total	$ 3,085,000,000		$ 151,045,889		
12						
13	Annualized Amortization of Debt Exp. & Debt Dsct.			4,955,311		
14	Less Unamortized Debt Discount	$4,370,288				
15	Less Unamortized Debt Expenses	($22,636,092)				
16						
17						
18						
19	Total LONG-TERM DEBT	$ 3,066,734,196		$ 156,001,200	5.09%	
20						
21	8.50% Sr Note due 3/15/2019 - Reissue	450,000,000	4.00%	18,000,000	750,000	0.17%
22	8.50% Sr Note due 3/15/2019	450,000,000	8.50%	38,250,000	36,656,250	8.15%
					37,406,250	8.31%

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Comparative Financial Data
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019
and 10 Most Recent Calendar Years

Data:__X___Base Period___X___Forecasted Period
Type of Filing:_______Original________Updated ____X____Revised
Workpaper Reference No(s).____________________

FR 16(8)(k)
Schedule K
Witness: Gillham, Martin, and Waller

Line No.	Description	Forecasted Period	Base Period	Most Recent Ten Calendar Years - as Reported 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
1	Plant Data: ($000)												
2	Plant in Service by functional class:												
3	Intangible Plant	779	779	128	128	128	128	128	128	128	128	128	128
4	Production & Gathering Plant	0	0	0	0	636	901	901	901	901	901	901	901
5	Underground Storage	14,280	14,142	12,454	11,560	10,792	9,630	10,104	9,388	7,731	7,540	6,950	6,878
6	Transmission Plant	31,808	31,808	31,814	31,808	31,877	32,962	32,836	33,144	31,189	31,202	28,807	28,746
7	Distribution Plant	588,244	522,190	472,849	413,302	381,623	340,200	323,036	296,493	283,474	271,463	260,621	251,843
8	General Plant	44,021	40,686	21,271	18,126	16,683	15,589	15,238	16,000	15,103	14,696	15,422	15,165
9	Acquisition Adjustments			3,279	3,279	3,279	3,279	3,279	3,279	3,337	3,337	3,337	3,337
10													
11	Gross Plant	679,132	609,604	541,795	478,203	445,018	402,689	385,522	359,333	341,863	329,267	316,166	306,998
12	Less: Accumulated depreciation	199,949	191,190	167,228	165,298	160,839	158,300	151,849	150,795	147,462	144,016	139,212	134,463
13	Net plant in Service	479,183	418,413	374,567	312,905	284,179	244,389	233,673	208,538	194,401	185,251	176,954	172,535
14													
15	Construction Work in Progress	27,493	27,493	10,146	26,310	12,708	16,578	6,006	3,306	7,197	4,851	5,215	1,897
16													
17	Total CWIP	27,493	27,493	10,146	26,310	12,708	16,578	6,006	3,306	7,197	4,851	5,215	1,897
18													
19	Total	506,676	445,907	384,713	339,215	296,887	260,967	239,679	211,844	201,598	190,102	182,169	174,432
20													
21	% of Construction financed internally	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
22													
23													
24	Capital structure: **(Total Company)**												
25	(based on year-end accounts))												
26	Short-term debt ($000)	242,504	242,504	829,811	457,927	196,695	367,984	570,929	206,396	126,100	72,550	350,542	150,599
27	Long-term debt ($000)	3,066,734	3,066,734	2,438,779	2,437,515	2,455,986	2,455,671	1,956,305	2,206,117	1,809,551	2,169,400	2,119,792	2,126,315
28	Preferred stock ($000)			0	0	0	0	0	0	0	0	0	0
29	Common equity ($000)	3,668,227	3,901,710	3,463,059	3,194,797	3,086,232	2,580,409	2,359,243	2,255,421	2,178,348	2,176,761	2,052,492	1,965,754
30													
31	Total	6,977,466	7,210,949	6,731,649	6,090,239	5,738,913	5,404,064	4,886,477	4,667,934	4,113,999	4,418,711	4,522,826	4,242,668
32													
33	Condensed Income Statement data: ($000)												
34	Operating Revenues	170,729	156,713	147,431	170,468	196,882	162,968	134,778	149,662	156,816	190,356	244,308	203,287
35	Operating Expenses (excludes Federal			0	0	0	0	0	0	0	0	0	0
36	and State Taxes, includes gas cost)	132,952	116,188	113,447	141,526	166,452	139,358	112,027	126,219	136,649	176,587	224,348	187,733
37	State Income Tax (current))			0	0	0	0	0	0	0	0	0	0
38	Federal Income Tax (current)			0	0	0	0	0	0	0	0	0	0
39	Federal and State Income Tax - net	7,725	8,891	9,516	9,884	9,671	7,060	8,157	8,094	5,654	2,889	6,985	4,307
40	Investment tax credits	0	0	0	0	0	0	0	0	0	0	0	0
41	Operating Income	30,053	31,634	24,468	19,058	20,759	16,550	14,594	15,349	14,513	10,880	12,976	11,247
42	AFUDC	0	0	179	182	139	88	101	22	286	199	160	94

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Comparative Financial Data
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019
and 10 Most Recent Calendar Years

Data:__X___Base Period___X___Forecasted Period | FR 16(8)(k)
Type of Filing:_______Original________Updated ____X____Revised | Schedule K
Workpaper Reference No(s).___________________ | Witness: Gillham, Martin, and Waller

Line No.	Description	Forecasted Period	Base Period	Most Recent Ten Calendar Years - as Reported 2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
43	Other Income net	2,087	2,087	2,087	2,063	2,019	2,033	2,046	2,657	1,748	2,278	2,529	1,547
44	Income available for fixed charges	32,140	33,721	26,734	21,303	22,917	18,671	16,741	18,028	16,547	13,357	15,665	12,888
45	Interest charges	9,855	8,070	7,556	6,926	6,559	6,524	5,612	5,792	6,270	6,633	6,138	6,155
46	Net Income	22,286	25,651	19,178	14,377	16,358	12,147	11,129	12,236	10,277	6,724	9,527	6,733
47	Preferred dividends accrual	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
48	Earnings available for common equity	22,286	25,651	19,178	14,377	16,358	12,147	11,129	12,236	10,277	6,724	9,527	6,733
49													
50	AFUDC - % of Net Income	0.00%	0.00%	0.93%	1.27%	0.85%	0.72%	0.91%	0.18%	2.78%	2.96%	1.68%	1.40%
51	AFUDC - % of earnings available for												
52	common equity	0.00%	0.00%	0.93%	1.27%	0.85%	0.72%	0.91%	0.18%	2.78%	2.96%	1.68%	1.40%
53													
54													
55													
56	Costs of Capital (1)												
57	Embedded cost of short-term debt (%)	1.99%	1.99%	1.12%	1.09%	1.49%	1.17%	1.22%	1.03%	3.23%	6.80%	4.40%	5.60%
58	Embedded cost of long-term debt (%)	5.09%	5.13%	5.89%	5.90%	6.03%	6.26%	6.51%	6.75%	6.88%	6.90%	6.10%	6.10%
59	Embedded cost of preferred stock (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
60													
61	Fixed Charge Coverage: (1)												
62	Pre-Tax Interest Coverage	4.05	5.28	5.75	5.39	4.69	3.91	3.06	2.97	3.00	2.84	3.06	2.75
63	Pre-Tax Interest Coverage (Excluding AFUDC)	4.05	5.28	5.77	5.41	4.70	3.92	3.04	2.95	2.99	2.80	3.12	2.81
64	After Tax Interest Coverage	3.26	4.18	3.24	3.71	3.24	2.89	2.36	2.26	2.23	2.20	2.26	2.12
65	SEC Coverage	4.01	5.21	5.17	4.89	4.32	3.60	2.84	2.78	2.78	2.55	2.76	2.69
66	After Tax Interest Coverage (Excluding AFUDC	3.26	4.18	4.04	3.73	3.25	2.81	2.35	2.24	2.21	2.16	2.31	2.16
67	Indenture Provision Coverage	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
68	After Tax Fixed Charge Coverage	5.12	8.12	3.65	3.39	3.02	2.60	2.21	2.13	2.08	2.18	2.15	2.04
69													
70	Stock and Bond Ratings: (1)												
71	Moody's Bond Rating	N/A	A2	A2	A2	A2	Baa1	Baa1	Baa1	Baa2	Baa2	Baa3	Baa3
72	S&P Bond Rating	N/A	A	A	A-	A-	A-	BBB+	BBB+	BBB+	BBB+	BBB	BBB
73	Moody's Preferred Stock Rating	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
74	S&P Preferred Stock Rating	N/A	N/A		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
75													
76	Common Stock Related Data: (1)												
77	Shares Outstanding Year End (000)	N/A	N/A	103,931	101,479	100,388	90,640	90,240	90,296	90,164	92,552	90,814	89,326
78	Shares Outstanding - Weighted	N/A	N/A	0	0	0	0	0	0	0	0	0	0
79	Average (Monthly) (000)	N/A	N/A	103,524	101,892	97,608	91,711	91,172	90,652	92,422	91,620	89,941	87,486
80	Earnings Per Share - Weighted Avg. ($)	N/A	N/A	3.38	3.09	2.96	2.64	2.37	2.27	2.20	2.07	1.99	1.91
81	Dividends Paid Per Share ($)	N/A	N/A	1.68	1.56	1.48	1.40	1.38	1.36	1.34	1.32	1.30	1.28
82	Dividends Declared Per Share ($)	N/A	N/A	1.68	1.56	1.48	1.40	1.38	1.36	1.34	1.32	1.30	1.28
83	Dividend Payout Ratio (Declared	N/A	N/A										
84	Basis) (%)	N/A	N/A	50%	50%	50%	53%	58%	60%	61%	64%	65%	67%
85	Market Price - High (Low)	N/A	N/A										

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
Comparative Financial Data
Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019
and 10 Most Recent Calendar Years

Data:__X___Base Period___X___Forecasted Period | FR 16(8)(k)
Type of Filing:_______Original________Updated ____X____Revised | Schedule K
Workpaper Reference No(s).____________________ | Witness: Gillham, Martin, and Waller

Line		Forecasted	Base	Most Recent Ten Calendar Years - as Reported									
No.	Description	Period	Period	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
86	1st Quarter - High ($)	N/A	N/A	64.250	58.080	47.060	36.860	35.400	31.720	30.060	27.880	29.460	33.010
87	1st Quarter - Low ($)	N/A	N/A	57.820	47.350	41.080	33.200	30.970	29.100	27.390	21.170	26.110	28.450
88	2nd Quarter - High ($)	N/A	N/A	74.330	58.810	48.010	42.690	33.150	34.980	29.520	25.950	28.960	33.000
89	2nd Quarter - Low ($)	N/A	N/A	61.740	52.020	44.190	35.110	30.600	31.510	26.520	20.200	25.090	30.630
90	3rd Quarter - High ($)	N/A	N/A	81.320	56.410	53.400	44.870	35.070	34.940	29.980	26.370	28.540	33.110
91	3rd Quarter - Low ($)	N/A	N/A	70.600	51.280	46.940	38.590	30.910	31.340	26.410	22.810	25.810	29.380
92	4th Quarter - High ($)	N/A	N/A	81.160	58.180	52.680	45.190	36.940	34.320	29.810	28.800	28.250	30.660
93	4th Quarter - Low ($)	N/A	N/A	71.880	51.480	47.010	39.400	34.940	28.870	26.820	24.650	25.490	26.470
94	Book Amount Per Share (Year-end) ($)	N/A	N/A	33.450	31.350	31.620	28.140	25.877	24.880	23.570	23.759	22.820	22.469
95													
96	(1) Based on fiscal year-end of parent company												
97													
98	Rate of Return Measures (1)												
99	Return On Common Equity (Average)	N/A	N/A	10.5%	10.0%	10.2%	9.8%	8.3%	8.6%	8.7%	8.7%	8.8%	8.8%
100	Return On Total Capital (Average)	0.4%	0.4%	5.5%	5.2%	5.2%	4.8%	4.0%	4.3%	4.4%	4.3%	4.3%	4.3%
101	Return On Net Plant in Service (Average)	6.3%	7.6%	4.5%	4.5%	4.5%	4.3%	3.6%	3.8%	4.1%	4.3%	4.5%	4.5%
102													
103	Other Financial and Operating Data:												
104	Mix of Sales: (MMcf)												
105	Residential	10,026	9,997	9,094	9,826	11,729	10,695	8,433	10,187	10,735	10,261	10,855	10,385
106	Commercial	4,896	4,896	4,538	4,845	5,650	5,143	3,972	4,642	5,049	4,659	5,017	4,793
107	Industrial	973	973	1,048	693	810	811	995	821	724	960	1,715	1,757
108	Public authority & Other Sales	963	963	916	1,025	1,234	1,179	980	1,111	1,192	1,176	1,253	1,195
109	Unbilled	0	0										
110	Total Mix of Sales	16,858	16,829	15,596	16,389	19,423	17,828	14,380	16,761	17,700	17,056	18,839	18,130
111													
112	Mix of Fuel: (MMcf)												
113		0	0	0	0	0	0	0	0	0	0	0	0
114	Other	17,178	17,149	15,417	18,606	21,324	18,367	17,441	16,748	17,596	17,034	18,790	19,493
115													
116	Total MIX of Fuel (2)	17,178	17,149	15,417	18,606	21,324	18,367	17,441	16,748	17,596	17,034	18,790	19,493
117													
118	Composite Depreciation Rate	3.17%	2.96%	3.33%	3.66%	3.50%	3.31%	3.49%	3.58%	3.40%	3.43%	3.17%	3.48%

(1) Based on fiscal year-end of parent company, except for Base Period & Test Period which are based on Atmos Energy Corporation, Kentucky.
(2) Kentucky gas purchases by accounting month.

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY	)	
	)	
CORPORATION FOR AN ADJUSTMENT	)	**Case No. 2017-00349**
	)	
OF RATES AND TARIFF MODIFICATIONS	)	

REBUTTAL TESTIMONY OF JOE T. CHRISTIAN

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Joe T. Christian. My business address is 5420 LBJ Freeway, 1600 Lincoln Centre, Dallas, TX 75240.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Atmos Energy Corporation ("Atmos Energy" or "the Company") as Director of Rates & Regulatory Affairs (Shared Services).

Q. ARE YOU THE SAME JOE CHRISTIAN THAT FILED PREFILED TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. ARE YOU SPONSORING ANY EXHIBITS AS PART OF YOUR REBUTTAL TESTIMONY?

A. Yes. I am sponsoring the following exhibits, which were prepared by me or under my direct supervision:

- Exhibit JTC-R-1 Selected Responses to Discovery
- Exhibit JTC-R-2 Updated Long-term Debt Rate
- Exhibit JTC-R-3 Capital Structure Comparison

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to rebut the adjustments to the Company's proposed short-term and long-term debt cost recommended by Attorney General's Office of Rate Intervention (OAG) witnesses Mr. Richard A. Baudino and Mr. Lane Kollen. I will also rebut the OAG's proposed adjustments to liabilities associated with certain deferred tax asset items and the Company's cash working capital adjustments proposed by Mr. Lane Kollen.

II. COST OF DEBT

Q. PLEASE DESCRIBE MR. BAUDINO'S ADJUSTMENT TO THE SHORT-TERM DEBT RATE?

A. Mr. Baudino recommends removing commitment fees of $2.604 million as interest expense and then allocating these fees based on a 5.2% allocator to O&M expense.[1]

Q. DO YOU AGREE WITH MR. BAUDINO'S ADJUSTMENT TO THE SHORT-TERM DEBT RATE?

A. No.

Q. WHY DO YOU DISAGREE WITH MR. BAUDINO'S ADJUSTMENT TO REMOVE COMMITMENT FEES IN THE COMPANY'S REQUESTED COST OF SHORT-TERM DEBT?

A. Commitment fees are an integral part of the cost of debt. Credit facilities would not be available to the Company if those fees were not paid. The fees represent costs of borrowing and are not unlike the points one pays when financing a home purchase with a mortgage; these are, in reality, up-front interest payments and are recognized

[1] Baudino, Direct at 29

as such for accounting purposes. These commitment fees are properly accounted for as interest costs in Account 4310, not as an O&M expense as characterized by Mr. Baudino. Therefore, the banking fees and commitment fees are an integral component of the actual short-term interest rate and are properly included in the short-term interest rate calculation.

Q. DOES ATMOS ENERGY INCLUDE BANKING AND COMMITMENT FEES IN THE CALCULATION OF SHORT-TERM DEBT IN OTHER JURISDICTION WHERE SHORT-TERM DEBT IS PART OF THE CAPITAL STRUCTURE?

A. Yes, the Company includes banking and commitment fees in the calculation of short-term debt in jurisdictions where short-term debt is part of the capital structure used for ratemaking.

Q. PLEASE DESCRIBE MR. BAUDINO'S ADJUSTMENT TO THE LONG-TERM DEBT RATE?

A. Mr. Baudino recommends updating the long-term debt rate for a $450 million debt issuance that matures in the final month of the test period. He substitutes the 8.5% rate associated with the $450 million and assumes, for purposes of this case, that the issue will be refinanced in its entirety at a coupon rate of 4.0%.[2]

Q. DO YOU AGREE WITH MR. BAUDINO'S ADJUSTMENT TO THE LONG-TERM DEBT RATE?

A. No. As noted in the discovery response to AG 1-40, "[n]o known and measurable adjustment has been made because the terms of potential financing were not known

[2] Baudino, Direct at 30

at the time of the filing, nor can they be estimated until closer to the time of that the loan is due in March of 2019. Please also note that the term of the loan will be in effect for each month of the forecast test period."[3]

Q. PLEASE DESCRIBE MR. KOLLEN'S AMORTIZATION FOR DEFERRED INTEREST TO ACCOUNT FOR RECOVERY OF THE LOST INTEREST RESULTING FROM MR. BAUDINO'S ASSUMED LONG-TERM DEBT REFINANCE.

A. Mr. Kollen discusses the effect of the forecasted new debt issuance in March 2019[4] and recommends that the Commission direct the Company to defer the differential in the interest expense between the maturing issue and the new debt issue and that it include an amortization expense in the revenue requirement. He characterizes this differential as temporary under recovery and recommends a ten-year amortization period.[5]

Q. DO YOU AGREE WITH MR. KOLLEN'S PROPOSED AMORTIZATION OF DEFERRED INTEREST?

A. No. I disagree for two reasons. As indicated above, the terms of the refinancing cannot be known at this time and therefore no adjustment should be made to reflect the maturing debt issuance. Secondly, for the same reasons it is improper to record commitment fees as O&M expense, characterizing the short-fall to the Company as an O&M expense is inappropriate.

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[3] AG 1-40 is included in Exhibit JTC-R-1

[4] Kollen, Direct at 53

[5] Kollen, Direct at 53-54

Q. IF THE COMMISSION WANTED TO RECOGNIZE THE ½ MONTH OF LOWER INTEREST EXPENSE, IS MR. KOLLEN'S PROPOSAL TO AMORTIZE THE SAVINGS OVER TEN YEARS A REASONABLE WAY TO INCORPORATE THE SAVINGS?

A. No. The Company's ARM proposal, as discussed by Mr. Martin and Mr. Waller, ensures that customers will not over pay for the last half month of interest expense. However, in the event the Commission does not approve the Company's ARM, the more accurate way to reflect a hypothetical refinancing with limited information is to weight the $450 million issuance one half month at the new rate and eleven and one half months at the current rate. Such a blending will ensure that the Company has a reasonable opportunity to recover its prudently incurred interest expense during the time rates are in effect but balances the impact to the customer by lowering the rate for ½ month of the test period.[6]

Q. HAS THE COMPANY INCLUDED THE UPDATED LONG-TERM DEBT RATE IN THE MODEL SPONSORED BY MR. WALLER IN HIS REBUTTAL TESTIMONY?

A. Yes, the Company has included the updated long-term debt rate in its rebuttal position.

[6] Please see Exhibit JTC-R-2 for calculation of the Updated Long-term Debt Rate.

Q. DOES THE METHODOLOGY USED IN THIS AND EVERY OTHER CASE FILED BY THE COMPANY IN KENTUCKY REQUIRE THE COMMISSION TO RECALCULATE THE PERCENTAGE COST OF SHORT TERM DEBT COMMENSURATE WITH RATE BASE OR CAPITAL STRUCTURE CHANGES AS MR. BAUDINO SUGGESTS IN HIS TESTIMONY?[7]

A. No. The Company's cost of both short-term and long-term debt are calculated based on the capitalization of the Atmos Energy Corporation as a whole for the reasons I explain in my pre-filed Direct Testimony.[8] Those rates are applied universally to the capital structures, levels of debt and rate bases approved for ratemaking in each jurisdiction the Company serves. A change in the relative capital structure or rate base for a particular jurisdiction (such as Kentucky), does not change the cost of debt or prudent level of credit facilities required for Atmos Energy as a whole.

Q. IS THE COMPANY'S METHODOLOGY FOR FORECASTING CAPITAL STRUCTURE CONSISTENT WITH THE METHODOLOGY THAT WAS ORDERED BY THE COMMISSION IN CASE NO. 2013-00148?

A. Yes. Although the Company originally recommended a capital structure without short-term debt in Case No. 2013-00148, it presented capital structures both with and without short-term debt in its filing for the forecasted test year in that case. The Commission ordered that rates be set utilizing the forecasted test year capital structure that included short-term debt and accepted the Company's forecast as it was included in the initial filing. In the previous case, as well as this case, I forecasted

[7] Baudino, Direct at 29
[8] *See* Christian Direct at 4-6

capital structure including short-term debt using the same methodology that was accepted by the Commission in Case No. 2013-00148.

Q. YOU MENTIONED IN YOUR DIRECT TESTIMONY THAT THE THIRTEEN MONTH SHAREHOLDER EQUITY BALANCE HAS NOT BEEN ADJUSTED IN TO REFLECT THE ISSUANCE OF EQUITY DURING THE BASE PERIOD.[9] DO YOU BELIEVE AN ADJUSTMENT IS WARRENTED AT THIS TIME?

A. I believe that an adjustment is warranted *if* the Commission does not approve the Company's ARM. Such an adjustment, utilizing the equity amount as of June 30, 2017 shown on FR 16(8)(j), line 5, column (B), would be the appropriate amount to utilize in determining the overall capital structure due to the fact that new shares of equity have been issued throughout the test period and is reflected in the June 2017 shareholder equity balance. As I mentioned in my Direct Testimony, I did not propose such an adjustment in order to conform the methodologies as closely as possible with the Settlement Agreement, Stipulation, and Recommendation ("SASR") Paragraph 6 in Case No. 2015-00343.

Q. HOW DOES THE USE OF JUNE 30, 2017 EQUITY COMPARE TO MORE RECENT PERIODS, SUCH AS DECEMBER 31, 2017?

A. Exhibit JTC-R-3 Capital Structure Comparison shows an overall capital structure as of both dates. The equity component on June 30, 2017 is 52.57% vs. December 31, 2017 of 57.28%, thus illustrating that the use of June 30, 2017 equity would be a more conservative capital structure than December 31, 2017.

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[9] Christian Direct at 7.

Q. WHY IS THE DECEMBER 31, 2017 EQUITY PERCENTAGE HIGHER THAN JUNE 30, 2017?

A. The Company issued additional equity in December 2017 in the amount of $395.1 million in order to maintain balanced financing of our ongoing capital expenditures.

III. LIABILITIES ASSOCIATED WITH CERTAIN ADIT ASSETS

Q. PLEASE DESCRIBE MR. KOLLEN'S PROPOSED ADJUSTMENTS RELATING TO ACCUMULATED DEFERRED INCOME TAXES ("ADIT").

A. Mr. Kollen proposes three adjustments related to ADIT.[10] Two of those adjustments relate to certain deferred tax assets ("DTAs") which he divides into two categories. The third adjustment is related to the DTA for the Company's net operating loss carryover ("NOLC"). Mr. Kollen testifies that the first and second categories are removed because in general the DTAs are related to costs that are not recovered through the ratemaking process[11] and that the Company failed to subtract the associated liability from rate base.[12] Mr. Kollen goes on to note that the Company has agreed to remove certain of the identified items.[13]

Q. HOW WILL THE COMPANY ADDRESS MR. KOLLEN'S PROPOSED ADJUSTMENTS RELATING TO ADIT.

A. I will rebut Mr. Kollen's arguments relating to the appropriateness of the remaining two category 1 adjustments that are beyond what was agreed to in discovery as well as the liabilities associated with category 2 deferred tax assets in this section. Company witness Jennifer K. Story also rebuts Mr. Kollen's arguments relating to the

[10] Kollen Direct at 12-13.
[11] Kollen, Direct at 13
[12] Kollen Direct at 14
[13] Kollen Direct at 15, referring back to Company Responses to AG 1-33, 1-34, 1-35.

deferred tax assets in what Mr. Kollen refers to as the second category as well as his arguments relating to the NOLC.

Q. PLEASE DESCRIBE MR. KOLLEN'S PROPOSAL FOR HIS FIRST CATEGORY OF DEFERRED TAX ASSETS.

A. Mr. Kollen recommends that the Commission remove seven categories of DTA's. Of these seven the Company indicated in response to AG 1-33, 1-34, and 1-35 that it does not oppose removing five categories.[14] The Company disagrees with Mr. Kollen's adjustments to two DTA items related to self-insurance and benefits accruals.

Q. DO YOU AGREE WITH HIS ADJUSTMENT FOR THESE TWO ITEMS?

A. No. As indicated in response to AG 1-33 (b) and AG 1-34 (c) these items are associated with Employee Welfare expenses consistent with prior cases, including 2013-00148 and 2015-00343. As expenses in the revenue requirement, inclusion of the DTA is appropriate.

Q. DID THE COMPANY INCLUDE ADJUSTMENTS IN ITS REBUTTAL MODEL REFLECTING THE REMOVAL OF THE FIVE CATEGORY ONE ITEMS?

A. Yes. I would note however that due to Tax Cut Jobs Act ("Tax Reform") the ADIT has been updated by the Company in its rebuttal model, thus it has had an impact on the amount of adjustment for the items that both parties agree need to be removed from rate base.

[14] See Exhibit JTC-R-1 Selected Responses to Discovery

Q. PLEASE DESCRIBE MR. KOLLEN'S PROPOSAL FOR HIS SECOND CATEGORY OF DEFERRED TAX ASSETS.

A. Mr. Kollen recommends that the Commission either deduct the associated liabilities from rate base or remove the DTAs from rate base. In his calculation of the revenue requirement impact of his recommendations, he chooses the former option by calculating the impact of removing the liabilities from rate base.

Q. DO YOU AGREE WITH HIS ADJUSTMENT?

A. No.

Q. WOULD YOU CONSIDER HIS TREATMENT TO BE "CORRECT RATEMAKING" AS HE CONTENDS?[15]

A. No. The Company has rates approved in the eight states it serves and makes no such adjustment in any of its jurisdictions. Mr. Kollen testified against the Company in Docket Nos. 20298-U, 27163, and 30442 in the Company's former Georgia jurisdiction and did not propose this adjustment. I am unaware of this treatment being applied to any gas utility in Kentucky and furthermore, it is inconsistent with the rates approved by this Commission in Case No. 2013-00148.

Q. WHAT IS THE PROPER RATEMAKING FOR LIABILITIES SUCH AS THE ONES IN QUESTION HERE?

A. They are not deducted from rate base. Timing differences between the time an expense is booked and cash paid are netted against timing differences between the time revenues are billed and cash received. The net result of these timing differences

[15] Kollen Direct at page 13.

comprise a utility's cash working capital requirement which is properly included in rate base.

IV. CASH WORKING CAPITAL

Q. PLEASE DESCRIBE MR. KOLLEN'S ADJUSTMENT TO THE COMPANY'S CASH WORKING CAPITAL STUDY?

A. Mr. Kollen analyzes the cash working capital study filed by the Company in compliance with the Commission Order in Case No. 2015-00343 and indicates that the Company has incorrectly included $5.953 million in non-cash expenses in the calculation of our cash working capital study.[16] Mr. Kollen does not specifically state his agreement but does include in his cash working calculation the Company's calculation of the revenue lag and expense lags. Mr. Kollen also indicates that use of the one-eighth O&M expense methodology is outdated, inaccurate, and arbitrary.[17]

Q. DO YOU AGREE WITH MR. KOLLEN'S DISMISSAL OF THE ONE-EIGHTH METHODOLOGY AS BEING OUTDATED, INACCURATE AND ARBITRARY?

A. No. Mr. Kollen's rejection of the one-eighth methodology ignores the Commission's acceptance of this methodology in the Company's ratemaking as recently as the fully litigated Case No. 2013-00148. As I mentioned in my direct testimony, this method has been utilized by the Company since its purchase of Western Kentucky Gas Company in 1987.

[16] Kollen Direct at page 32
[17] Kollen Direct at page 31

Q. DO YOU AGREE WITH HIS REASONING THAT THE RESULTS OF CASH-WORKING CAPITAL, AS ADJUSTED TO FIT HIS CRITERIA, IS A SOUND BASIS FOR REJECTING THE ONE-EIGHT METHODOLOGY?

A. No. First, Mr. Kollen adjusts the cash-working capital studies filed by the Company in other jurisdictions to arrive at a result to support his view regarding treatment of non-cash items. He does not acknowledge that Tennessee and Virginia have accepted non-cash items as part of studies. Next, Mr. Kollen's reliance on adjusted studies from other jurisdictions does not take into consideration the full proceedings, but rather he selectively takes one part of a larger proceeding without consideration of the full records developed in the proceedings that he cites. Comprehensive rate proceedings, whether litigated or settled, often times take into consideration overall results to arrive in a final order that implements just and reasonable rates while permitting the utility a fair opportunity to earn its authorized rate of return. In other words, heavy reliance should not be given to one item in a bigger proceeding without understanding how it fits into the overall result of the proceeding. Mr. Kollen has offered no other testimony regarding how the cash-working capital study results fit into the larger outcome of the studies he cites.

Q. DO YOU AGREE WITH MR. KOLLEN'S CHARACTERIZATION OF THE LEAD/LAG STUDIES PERFORMED IN TENNESSEE?

A. No. Mr. Kollen states that, in the studies performed by the Company in Tennessee, that two items were "erroneously included."[18] He further states that Atmos had negative cash working capital requirements "in *every* instance, when correctly

[18] Kollen, Direct at 33. I also note the Mr. Kollen made similar accusations regarding the Virginia study, Direct at 34.

calculated" where it filed lead/lag studies.[19] Both of these statements overlook the fact that the studies were filed *and approved* by the Tennessee Public Utility Commission ("TPUC"). The methodology filed by the Company and approved by the TPUC results in a positive cash working capital requirement. Because they were approved in Tennessee, the amounts included were, by definition, not erroneously included. While Mr. Kollen is entitled to his opinion, an opinion that differs from his is not an error as he claims. If the Commission was to abandon its precedent and adopt the Company's lead/lag study in this case, including the methodology approved in Tennessee, the result is a positive cash-working capital balance of $2.4 million.

Q. IS DEPRECIATION EXPENSE PROPERLY INCLUDED IN THE LEAD-LAG STUDY?

A. Yes. As I indicated in my Direct Testimony, the payment for the asset precedes the receipt of service from the asset and the recording of depreciation expense. The lag between payment for the asset and the recording of depreciation expense is recognized by the including net plant in service in rate base.

Q. DOES INCLUSION OF PLANT IN SERVICE IN RATE BASE SUFFICE TO PROPERLY ACCOUNT FOR THE ENTIRE LAG RELATING TO DEPRECIATION?

A. No. The inclusion in rate base of plant in service does not recognize the subsequent lag from the provision of service to the receipt of cash for that service. By including depreciation expense in the lead-lag study with a zero expense lag, the lead-lag study

[19] Kollen Direct at 34

properly recognizes the subsequent revenue lag on recovering cash related to investment in plant assets. In other words, the investment in an asset is included in rate base as net plant in service until depreciation is recorded on that asset. Recording depreciation removes the asset from rate base, even though cash has not been received to pay for the service provided by the asset, unless the revenue lag on depreciation expense is included in cash working capital through the lead-lag study.

Q. IS THE RETURN OF NON-CASH EXPENSE BEST HANDLED THROUGH LAG AND RETAINAGE OF THE CARRYING CHARGE VALUE OF NON-CASH EXPENSES BETWEEN RATE CASES AS MR. KOLLEN SUGGESTS ON PAGE 35 OF THIS TESTIMONY?

A. No. The test period the Company utilizes is a forward looking rate base and therefore the average investment is reflected in the rate base component so no lag on depreciated investment is experienced during the test period. Moreover, to the extent the Company does not file a rate case each and every twelve months and rate base is increasing, lag on the new investment more than off-sets any lag that occurs due to depreciating investment.

Q. IS MR. KOLLEN CORRECT IN DIVIDING THE RETURN ON EQUITY INTO TWO COMPONENTS TO ARGUE THAT ZERO LAG IS INAPPROPRIATE FOR THE DIVIDEND PORTION OF RETURN AS HE SUGGESTS ON PAGE 35 OF HIS TESTIMONY?

A. As indicated in my Direct Testimony, operating income is earned through the provision of utility service. There is again a revenue lag between the provision of service and the receipt of cash for that service. Mr. Kollen does not dispute that derivation of the rates billed to customers includes a return component, and furthermore he does not address the fundamental premise that the shareholder gets to wait 39.06 days from the time service is provided by the company until revenue related to that service is available to the Company. His attempt to distract and point to dividends in order to suggest that shareholders should have rate base reduced to reflect a payment to the shareholder is puzzling.

Q. SHOULD THE COMMISSION REMOVE PREPAIDS FROM RATE BASE AS SUGGESTED BY MR. KOLLEN?[20]

A. Yes. The Company has removed prepaids in the model supported in Mr. Waller's Exhibit GKW-R-1

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[20] Kollen Direct at 36

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF	)	
RATE APPLICATION OF	)	Case No. 2017-00349
ATMOS ENERGY CORPORATION	)	

CERTIFICATE AND AFFIDAVIT

The Affiant, Joe T. Christian, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared rebuttal testimony of this affiant in Case No. 2017-00349, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared rebuttal testimony.

Joe T. Christian

STATE OF Texas

COUNTY OF Dallas

SUBSCRIBED AND SWORN to before me by Joe T. Christian on this the 26th day of February, 2018.

Notary Public

My Commission Expires: 9/01/2020

GISELLE R HEROY
Notary Public, State of Texas
Comm. Expires 09-01-2020
Notary ID 13080484-2

REQUEST:

Refer to electronic workpaper "ADIT_for_KY_-_2017" provided in response to the Staff's First Set of Data Requests. Refer further to the worksheet tab for Division 002 - Shared Services. For the following account 190 ADIT descriptions and amounts as of March 31, 2019, (1) describe in detail the temporary difference that produced the ADIT; (2) define how the Company included or excluded the costs associated with the temporary differences in the revenue requirement; and, (3) provide the Company's justification for inclusion in the revenue requirement given the Company's revenue requirement treatment of the costs that produced the ADIT.

a. MIP/VPP Accrual - $1,498,907

b. Self Insurance - Adjustment - $2,915,283

c. SEBP Adjustment - $26,316,340

d. Restricted Stock Grant Plan - $4,631,448

e. Rabbi Trust - $1,442,452

f. Restricted Stock - MIP - $12,632,356

g. Director's Stock Awards - $5,939,395

h. Charitable Contribution Carryover - $11,032,917

i. VA Charitable Contributions - $(9,275,764)

RESPONSE:

a)

1) MIP/VPP accrual is the accrual of bonuses under the Management Incentive Plan and the Variable Pay Plan. The bonuses are accrued throughout the year and paid subsequent to year end. For financial reporting purposes, these accruals are made throughout the year to accounts 2420.27307, 2420.27349 and 2530.27703 with a corresponding entry to expense. For tax, these amounts are only deductible when paid during or within 2 ½ months

after the tax year end, per IRC §404. As a result, a deferred tax asset is booked for the amount expensed for books but not yet deductible for tax.

2) The expenses associated with the item are excluded as shown on Exhibit GKW-2.

3) The Company has included the balance as a component of ADIT consistent with prior filings in Kentucky including in Case No. 2013-00148 and Case No. 2015-00343. However, in recognition of the Company's response to part 2, the Company would not be opposed to removing the balance from ADIT.

b)

1) The Company self insures itself for certain losses and contingencies. The Company accrues an expense to establish the self insurance reserves on the general ledger in accounts 2282.28101 and 2282.28104. Once a loss, which is covered by a self insurance reserve, is realized by the Company, the payment of that loss is made out the accrual which has been established on the general ledger. For tax purposes, pursuant to §461(h), liabilities may only be deducted when all events which establish the fact of the liability have occurred, the amounts can be determined with reasonable accuracy, and economic performance has occurred. A deferred tax asset is booked for those expenses recognized for books but not yet deductible for tax.

2) The expenses associated with the item are included in Employee Welfare expense consistent with prior practice including in Case No. 2013-00148 and Case No. 2015-00343.

3) Because the expense is included in revenue requirement, the balance is properly included in ADIT.

c)

1) The Company accrues a liability to meet the future obligations associated with supplemental executive benefits. For book purposes, the accruals are recorded to expense and a liability is established in accounts 2530.27712, 2530.27713 and 2420.27388. For tax purposes, supplemental executive benefits are not deductible until paid, pursuant to §409A. A deferred tax asset is booked for those expenses currently recognized for financial reporting purposes but not yet deductible for tax.

2) The expenses associated with the item are included in Employee Welfare expense consistent with prior practice including in Case No. 2013-00148 and Case No. 2015-00343.

3) Because the expense is included in revenue requirement, the balance is properly included in ADIT.

d)

1) Restricted stock units are granted to employees. There is a difference between when the expense associated with the unit grants is recognized for financial reporting purposes versus when the expense is recognized for tax purposes. For financial reporting purposes, the value of the units at the date of grant is amortized over three years starting on the date of grant. For tax purposes, pursuant to IRC code section 83(h), the expense cannot be recognized until the units vest and stock is awarded. This results in a timing difference and a deferred tax asset for the amortization recognized for financial reporting purposes but not yet deductible for tax. Restricted stock is amortized through accounts 2110-10253, 2110-10255, 2110-10257 and 2110-10261.

2) The expenses associated with the item are excluded as shown on Exhibit GKW-2.

3) The Company has included the balance as a component of ADIT consistent with prior filings in Kentucky including in Case No. 2013-00148 and Case No. 2015-00343. However, in recognition of the Company's response to part 2, the Company would not be opposed to removing the balance from ADIT.

e)

1) Accumulated appreciation, impairments of investment assets, contributions and distributions on Rabbi Trust assets are tracked in general ledger account 1860.13992. For book purposes, an investment asset may be impaired when management believes the decline in the fair value of the investment is not temporary. For tax purposes, an impaired investment asset is not a valid tax deduction until the underlying investment is sold. Book and tax basis are the same for appreciation, cash contributions and distributions. The Rabbi Trust deferred tax balance equals the impaired assets allowed as a loss for books but not yet a valid tax deduction.

2) The entries related to the item as described in part (1) support the funding of benefits described in part c and are included in Employee Welfare expense consistent with prior practice including in Case No. 2013-00148 and Case No. 2015-00343.

3) Because the expense is included in revenue requirement, the balance is properly included in ADIT.

f)

1) For book purposes, the restricted stock granted is amortized over a three year purposes. For tax purposes, the compensation expense is not allowed until the restricted stock has vested, pursuant to IRC §83. This timing difference results in a deferred tax asset equal to the book amortization on the restricted stock not yet deductible for tax.

2) The expenses associated with the item are excluded as shown on Exhibit GKW-2.

3) The Company has included the balance as a component of ADIT consistent with prior filings in Kentucky including in Case No. 2013-00148 and Case No. 2015-00343. However, in recognition of the Company's response to part 2, the Company would not be opposed to removing the balance from ADIT.

g)

1) This deferred item reflects the difference between the book and tax treatment of the expense related to restricted stock issued to the Board of Directors. For financial reporting purposes, the expense for Director's Stock is recorded in general ledger account 9302.04113 in the year the stock is granted. Pursuant to IRC §83(h), for tax purposes the expense cannot be recognized until the stock is fully vested. A deferred tax asset is created for the book expense recognized but not yet deductible for tax.

2) The expenses associated with the item are included in Directors & Shareholders expense consistent with prior practice including in Case No. 2013-00148 and Case No. 2015-00343.

3) Because the expense is included in revenue requirement, the balance is properly included in ADIT.

Case No. 2017-00349
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-33

h)

1) For financial statement purposes, charitable contributions are deducted when paid. For tax purposes, pursuant to §170(b)(2) the total deductions for any taxable year shall not exceed 10 percent of the taxpayer's taxable income. Per §170(d)(2), any contribution made by a corporation in a taxable year in excess of the amount deductible for such year under subsection (b)(2)(A) shall be deductible for each of the 5 succeeding taxable years in order of time. The ADIT item represents the contributions deducted for book purposes and not yet deductible for tax.

2) The expenses associated with the item are excluded as charitable contributions are coded to account 426.

3) The Company has included the balance as a component of ADIT consistent with prior filings in Kentucky including in Case No. 2013-00148 and Case No. 2015-00343. However, in recognition of the Company's response to part 2, the Company would not be opposed to removing the balance from ADIT.

i)

1) Pursuant to §170(d)(2), any contribution made by a corporation in a taxable year in excess of the amount deductible for such year under subsection (b)(2)(A) shall be deductible for each of the 5 succeeding taxable years. This valuation allowance was established to reduce the deferred tax asset related to charitable contributions due to circumstances leading the Company to believe it is more likely than not that the benefit from certain charitable contributions will not be realized.

2) The expenses associated with the item are excluded as charitable contributions are coded to account 426.

3) The Company has included the balance as a component of ADIT consistent with prior filings in Kentucky including in Case No. 2013-00148 and Case No. 2015-00343. However, in recognition of the Company's response to part 2, the Company would not be opposed to removing the balance from ADIT.

Respondents: Jennifer Story and Greg Waller

Case No. 2017-00349
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-34

REQUEST:

Refer to electronic workpaper "ADIT_for_KY_-_2017" provided in response to the Staff's First Set of Data Requests. Refer further to the worksheet tab for Division 091 - KY/Mid States. For the following account 190 ADIT descriptions and amounts as of March 31, 2019, (1) describe in detail the temporary difference that produced the ADIT; (2) define how the Company included or excluded the costs associated with the temporary differences in the revenue requirement; and, (3) provide the Company's justification for inclusion in the revenue requirement given the Company's revenue requirement treatment of the costs that produced the ADIT.

a. MIP/VPP Accrual - ($17,997)

b. SEBP Adjustment - $1,389,076

c. Reg Asset Benefit Accrual - $157,983

RESPONSE:

a)

1) Please see the Company's response to AG DR No. 1-33 subpart (a).

2) The expenses associated with the item are excluded as shown on exhibit GKW-2.

3) The Company has included the balance as a component of ADIT consistent with prior filings in Kentucky including in Case No. 2013-00148 and Case No. 2015-00343. However, in recognition of the Company's response to part 2, the Company would not be opposed to removing the balance from ADIT.

b)

1) Please see the Company's response to AG DR No. 1-33 subpart (c).

2) The expenses associated with the item are included in Employee Welfare expense consistent with prior practice including in Case No. 2013-00148 and Case No. 2015-00343.

3) Because the expense is included in revenue requirement, the balance is properly included in ADIT.

Case No. 2017-00349
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-34
Page 2 of 2

c)

1) For book purposes certain benefit costs are capitalized to various 1823 accounts. For tax purposes such expenses are deductible when paid as ordinary and necessary business expenses under IRC Section 162.

2) The expenses associated with the item are included in Benefits expense consistent with prior practice including in Case No. 2013-00148 and Case No. 2015-00343.

3) Because the expense is included in revenue requirement, the balance is properly included in ADIT.

Respondents: Jennifer Story and Greg Waller

Case No. 2017-00349
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-35
Page 1 of 1

REQUEST:

Refer to electronic workpaper "ADIT_for_KY_-_2017" provided in response to the Staff's First Set of Data Requests. Refer further to the worksheet tabs for Division 009 - Kentucky and Division 012 - Shared Services. For the following account 190 ADIT descriptions and amounts as of March 31, 2019, (1) describe in detail the temporary difference that produced the ADIT; (2) define how the Company included the costs associated with the temporary differences in the revenue requirement; and, (3) provide the Company's justification for inclusion in the revenue requirement given the Company's revenue requirement treatment of the costs that produced the ADIT.

a. MIP/VPP Accrual (Division 009) - ($18,182)

b. MIP/VPP Accrual (Division 012) - ($574,777)

RESPONSE:

a)

1) Please see the Company's response to AG DR No. 1-33 subpart (a).

2) The expenses associated with the item are excluded as shown on exhibit GKW-2.

3) The Company has included the balance as a component of ADIT consistent with prior filings in Kentucky including in Case No. 2013-00148 and Case No. 2015-00343. However, in recognition of the Company's response to part 2, the Company would not be opposed to removing the balance from ADIT.

b)

1) Please see the Company's response to AG DR No. 1-33 subpart (a).

2) The expenses associated with the item are excluded as shown on exhibit GKW-2.

3) The Company has included the balance as a component of ADIT consistent with prior filings in Kentucky including in Case No. 2013-00148 and Case No. 2015-00343. However, in recognition of the Company's response to part 2, the Company would not be opposed to removing the balance from ADIT.

Respondents: Jennifer Story and Greg Waller

Case No. 2017-00349
Atmos Energy Corporation, Kentucky Division
AG DR Set No. 1
Question No. 1-36
Page 1 of 1

REQUEST:

Refer to the Company's response to Staff 1-03, Schedule 3a, which provides the components of the capital structure for Atmos Energy Corporation for the prior calendar years from 2003 to 2016 using ending balances and daily average balances of short term debt. Identify and describe all reasons why the Company decreased the level of short term debt in the filing compared to the average balances portrayed in the data response for all years since 2012.

RESPONSE:

The Company, as further described in Section III of the Direct Testimony of Mr. Christian (page 4, line 20 - page 8, line 19) is requesting a 13-month average actual capital structure as June 30, 2017, with an adjustment to the average outstanding short-term and long-term debt (as shown on FR 16(8)(j) which is the same method utilized when the Commission approved the settlement agreement in Case No. 2015-00343 (Case No. 2015-00343, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Aug 4. 2016)).

Atmos Energy has focused on the importance of maintaining a balance in the capital structure that will enable the Company to access capital markets under favorable conditions as the Company focuses on infrastructure replacement in Kentucky as well as other parts of its utility system. The Company's ability to access the capital markets is highly dependent on its credit ratings and the perceived risk it faces in providing service which also determines the rates of return/interest it must pay to access that capital. These ratings are extremely important to Atmos Energy's ability to access the debt and equity markets and specifically reflect the perceived risk of investing in the Company. Increasing the equity portion of the balance sheet (February 2014 and forward) is a part of maintaining a balanced capital structure and is credit positive due to the de-leveraging of lenders.

Respondent: Joe Christian

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349
AVERAGE ANNUALIZED LONG-TERM DEBT FOR REBUTTAL
Forecasted Test Period: Twelve Months Ended March 31, 2019

FR 16(8)(j)
Schedule J-3
Sheet 1 of 1
Witness: Christian

Data:_____Base Period___X___Forecasted Period
Type of Filing:________Original___X___Updated ________Revised
Workpaper Reference No(s).____________________

Line No.	Issue		13 Mth Average Amount Outstanding	Interest Rate	Effective Annual Cost	Composite Interest Rate
	(A)		(B)	(C)	(D)	(E=D/B)
	As rebuttad by ATO					
1	6.75% Debentures Unsecured due July 2028		$ 150,000,000	6.75%	$ 10,125,000	
2	6.67% MTN A1 due Dec 2025		10,000,000	6.67%	667,000	
3	5.95% Sr Note due 10/15/2034		200,000,000	5.95%	11,900,000	
4	6.35% Sr Note due 6/15/2017		0	6.35%	-	
5	Sr Note 5.50% Due 06/15/2041		400,000,000	5.50%	22,000,000	
6	Sr Note due 3/15/2019 **- Blended**		450,000,000	**8.31%**	37,395,000	
7	4.15% Sr Note due 1/15/2043		500,000,000	4.15%	20,750,000	
8	4.125% Sr Note due 10/15/2044		750,000,000	4.13%	30,937,500	
9	3% Sr Note due 6/15/2027		500,000,000	3.00%	15,000,000	
10	$200MM 3YR Sr Credit Facility (Est. 9/22/16)		125,000,000	1.82%	2,271,389	
11	Total		$ 3,085,000,000		$ 151,045,889	
12						
13	Annualized Amortization of Debt Exp. & Debt Dsct.				4,955,311	
14	Less Unamortized Debt Discount		$4,370,288			
15	Less Unamortized Debt Expenses		($22,636,092)			
16						
17	Total LONG-TERM DEBT		$ 3,066,734,196		$ 156,001,200	**5.09%**
18						
19						
20	8.50% Sr Note due 3/15/2019 - Reissue	0.5	450,000,000	4.00%	750,000	
21	8.50% Sr Note due 3/15/2019	11.5	450,000,000	8.50%	36,656,250	
22	Blended Rate		450,000,000	8.31%	37,406,250	
23						

Atmos Energy Corporation, Kentucky/Mid-States Division
Kentucky Jurisdiction Case No. 2017-00349

Base Period: Twelve Months Ended December 31, 2017
Forecasted Test Period: Twelve Months Ended March 31, 2019

COMPARISON OF CAPITAL STRUCTURE Witness: Christian

Line No.	Class of Capital	Workpaper Reference	December 31, 2017 [1] Amount	Percent of Total	Cost Rate	Weighted Cost	June 30, 2017 (Forecasted Period) Amount	Percent of Total	Cost Rate	Weighted Cost
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
			$000	%	%	%	$000	%	%	%
1	SHORT-TERM DEBT		336,816	4.23%	1.68%	0.07%	242,504	3.48%	1.99%	0.07%
2	LONG-TERM DEBT		3,067,469	38.50%	5.09% [1]	1.96%	3,066,734	43.95%	5.09% [1]	2.24%
3	Total DEBT		3,404,285	42.73%		2.03%	3,309,239	47.43%		2.31%
4	PREFERRED STOCK		0	0.00%	0.00%	0.00%	0	0.00%	0.00%	0.00%
5	COMMON EQUITY		4,563,620	**57.28%**	10.30%	5.90%	3,668,227	**52.57%**	10.30%	5.41%
6	Other Capital		0	0.00%	0.00%	0.00%	0	0.00%	0.00%	0.00%
7	Total Capital		7,967,905	100.00%		7.93%	6,977,466	100.00%		7.72%

[1] Information is taken from the Company's lastest available quarter end reporting.
[2] Includes the Company's updated position on long-term debt cost

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY	)	
	)	
CORPORATION FOR AN ADJUSTMENT	)	**Case No. 2017-00349**
	)	
OF RATES AND TARIFF MODIFICATIONS	)	

REBUTTAL TESTIMONY OF JENNIFER K. STORY

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Jennifer K. Story. My business address is 5430 LBJ Freeway, Suite 700, Dallas, TX 75240. I am employed by Atmos Energy Corporation ("Atmos Energy" or the "Company") as Director of Income Tax.

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. As Director of Income Tax for Atmos Energy, I am responsible for oversight and management of all income tax matters for the Company. This oversight includes ensuring that the income tax accounts recorded on the books and records accurately reflect the Company's tax filings and positions. I am also responsible for ensuring that deferred taxes are recorded on the financial statements in accordance with Generally Accepted Accounting Principles ("GAAP"). I oversee a group of tax professionals which undertakes tax planning to minimize taxes, prepare the Company's tax filings, and defends those filings under audit. I am also responsible for the establishment of and compliance with the Company's income tax policies and controls.

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. I received my education at the University of Texas at Dallas. In 2002, I received a Bachelor of Science degree with a major in accounting. I am a licensed certified public accountant in the State of Texas.

I worked in both a large corporate tax department and in public accounting prior to joining Atmos Energy in December 2006. Since joining Atmos Energy, I have assumed the oversight and management of all income tax matters for the Company. I also serve as a representative for the Company on the American Gas Association's Tax Committee.

Q. HAVE YOU TESTIFIED BEFORE THIS OR ANY OTHER REGULATORY COMMISSION?

A. Yes. I have submitted direct and rebuttal testimony regarding income taxes in the following proceedings:

Regulatory Authority	Proceeding	Testimony Submitted
Kentucky Public Service Commission	Docket No. 2017-00481	Direct
Colorado Public Utilities Commission	Proceeding No. 15AL-0299G	Rebuttal
Mississippi Public Service Commission	Docket No. 2015-UN-049	Rebuttal
Texas Railroad Commission	GUD No. 10580	Rebuttal
Texas Railroad Commission	GUD No. 10640	Rebuttal
Tennessee Public Utility Commission	Docket No. 17-00012	Direct and Rebuttal

Q. HAVE YOU REVIEWED THE INTERVENOR TESTIMONY FILED ON BEHALF OF THE OFFICE OF THE ATTORNEY GENERAL BY WITNESS LANE KOLLEN IN THIS CASE?

A. Yes, I have reviewed Mr. Kollen's testimony.

II. PURPOSE AND SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I rebut the arguments raised in the direct testimony of Kentucky Office of the Attorney General ("AG") witness Lane Kollen regarding his proposed adjustments to rate base for accumulated deferred income taxes ("ADIT"). I also discuss the impact of the change in the statutory federal income tax rate resulting from the Tax Cuts and Jobs Act ("TCJA") on the Company's financial operations.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony will address Mr. Kollen's three adjustments related to ADIT: Category 1[1] representing certain deferred tax assets ("DTAs") recorded at Divisions 002, 012, 009, and 091; Category 2[2] representing certain DTAs also recorded at Divisions 002 and 091; and a DTA relating to net operating loss carryover ("NOLC").

It is my testimony that inclusion of the DTAs for the Company's self-insurance plan and for the regulatory asset for benefits accruals from Category 1, as well as the Category 2 DTAs, and the NOLC ADIT are appropriate inclusions to rate base accepted by numerous commissions and based on sound ratemaking principles. Failure to include these items in rate base would result in a return requested from rate payers that would not be reflective of the economic realities embodied in the Company's tax filings and associated cash flow.

It will also be my testimony that Mr. Kollen's adjustment of the DTAs relating to the Company's self-insurance plan and the regulatory asset for benefits in the Category 1 DTAs is misleading since the costs giving rise to these amounts are included in operating expense and thus are properly included in rate base. In addition, Mr. Kollen has established an arbitrary standard with respect to DTAs

[1] Kollen Direct Testimony at 17.
[2] *Id.* at 18.

relating to Category 2. His standard is inconsistent with the standard he applied to the Category 1 DTAs. The DTAs in Category 2 are related to costs included in operating expenses and are therefore properly included in rate base. Company witness Mr. Christian will testify as to why Mr. Kollen's proposal to deduct the liabilities from rate base would be inappropriate.

With respect to the NOLC ADIT, my testimony will demonstrate that Mr. Kollen's conclusion regarding the tax expense included in the filing is incorrect and the Company has in fact reduced tax expense for the NOLC. Mr. Kollen's reliance on a single Private Letter Ruling ("PLR") issued to a taxpayer operating in a jurisdiction other than Kentucky is both misguided and misleading. The jurisdiction in which this taxpayer operates computes rates in a different manner than is required in Kentucky. The facts are not analogous to this case yet Mr. Kollen's testimony misleads by erroneously concluding that they are identical to the facts before the Commission in this proceeding. This is simply not the case. I will point to language in PLR 2014-18024 that demonstrates the difference in facts and I will demonstrate by example in my testimony how the calculation of tax expense for the taxpayer requesting PLR 2014-18024 differs from the calculation of tax expense in this filing. This incorrect and misleading interpretation on Mr. Kollen's part is the basis for his flawed assertions and incorrect adjustments. In addition, Mr. Kollen by outright omission fails to acknowledge seven PLRs, in addition to the PLR received by the Company, that demonstrate that a normalization violation would occur if the regulator disallowed inclusion of the NOLC ADIT in rate base in this case. The facts in these PLRs are similar and therefore far more relevant to the ruling requested and received by the Company. Mr. Kollen has relied solely upon the one PLR he has incorrectly interpreted. Therefore, all of Mr. Kollen's proposals relating to NOLC ADIT should be rejected. It will also be my testimony that the AG had ample opportunity to comment on the Company's Request for a PLR at the time the request was filed. The request was factually correct and to now allege the request was factually incorrect is inappropriate. Furthermore, Mr. Kollen's proposals would be inconsistent with sound ratemaking principles, this Commission's ruling in Case No. 2013-00148 and the Internal Revenue Service ("IRS") PLR received by the Company.

Lastly, my testimony will address the impact of the reduction in the federal corporate tax rate resulting from the Tax Cuts and Jobs Act ("TCJA") on the Company's financial operations. I will describe the regulatory liability established for excess deferred income taxes resulting from the reduction in the federal corporate income tax rate. I will also describe the required methodology for amortizing this regulatory liability.

Q. PLEASE SUMMARIZE YOUR IMPRESSIONS OF MR. KOLLEN'S TESTIMONY.

A. The Category 1 DTAs are recorded at Divisions 002, 012, 009 and 091. Mr. Kollen testified that these DTAs should be excluded from rate base because the costs which give rise to the identified DTAs are not included in operating expense nor are the associated liabilities subtracted from rate base in determining the revenue requirement.[3] The Company agreed that it would not oppose removing certain DTAs Mr. Kollen has included in Category 1 relating to the Company's MIP, VPP and restricted stock plans from rate base. The Company also agreed that it would not oppose removing deferred tax amounts relating to charitable contributions from rate base. Mr. Kollen has also included DTAs for the Company's self-insurance plan and for the regulatory asset for benefits accrual in Category 1. It is unclear why he has done so since the costs which give rise to these amounts are included in operating expense and the Company disagrees with the removal of these two DTAs.

Category 2 is related to certain DTAs also recorded at Divisions 002 and 091. Mr. Kollen applied a different standard to these DTAs than the standard he applied to those in Category 1. Unlike the DTAs in Category 1, Mr. Kollen has testified that to determine whether the Category 2 DTAs should be included in rate

[3] *Id.* at 13, Lines 10-11.

base, the singular test is whether any associated liabilities are deducted from rate base in determining the revenue requirement.[4] He dismisses the fact that the costs associated with these DTAs are included in operating costs.[5] This is in contrast to the standard for the Category 1 DTAs and Mr. Kollen offers no explanation for this inconsistency. Mr. Kollen has recommended that the Commission either deduct the associated liabilities from rate base or remove the DTAs from rate base.

With respect to the NOLC DTA, Mr. Kollen:

(1) states that the Company's facts in this filing are more closely aligned with a PLR issued to another taxpayer operating in another jurisdiction. (PLR 201418024);

(2) alleges that the Company's Request for PLR and the resulting PLR issued by the IRS are fundamentally flawed and cannot be relied upon; and

(3) proposes to disallow the NOLC DTA from rate base.

His proposals and allegations regarding the NOLC are based entirely on his incorrect conclusion that the Company has not reflected a reduction to income tax expense for the NOLC and his reliance on a PLR that is inapplicable to the Company and Kentucky.

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[4] *Id.* at 14, Lines 17-19.
[5] *Id.* at 16, Lines 5-7.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes, I am sponsoring Exhibit JKS-R-1 and JKS-R-2.

III. <u>RATEMAKING TREATMENT OF ACCUMULATED DEFERRED INCOME TAXES</u>

Q. WHAT DO ACCUMULATED DEFERRED INCOME TAXES REPRESENT?

A. Deferred taxes represent the balance of tax that is due or receivable in the future when items of income and expense are recognized for tax purposes in a period different than they are recognized for financial reporting purposes. Accumulated deferred taxes simply represent the accumulated tax for all items deferred to future periods. For a regulated utility, deferred taxes represent a source of cost-free financing provided by the government.

Q. PLEASE DESCRIBE WHAT GIVES RISE TO ACCUMULATED DEFERRED INCOME TAXES.

A. Deferred taxes arise from the interaction of the Internal Revenue Code ("IRC"), the Company's accounting practices under United States ("US") generally accepted accounting principles ("GAAP"), and the Company's operations. Deferred taxes are created because of differences between the IRC and the Company's accounting under US GAAP. In addition to Federal Energy Regulatory Commission ("FERC") rules, the Company's records are maintained according to US GAAP accounting principles which provide guiding principles and requirements as to when and how the Company records its financial results. Likewise, the IRC and related regulations provide the rules and requirements the Company follows when completing its tax filings. There are numerous differences between US GAAP and the IRC.

Examples include, but are not limited to, differences in the recognition of income or expense, time period or methods by which assets are depreciated and the capitalization of costs. Many of these differences are temporary in nature, meaning the total amount of income or expense recognized for an item is the same under US GAAP and the IRC, but the time period over which it is recognized is different. For example, an item purchased by the Company for $100 may be capitalized and depreciated over a 30 year period under US GAAP. The IRC may permit that same item to be depreciated over a 15 year period. There is no difference in the depreciation deductions over time in that US GAAP and the IRC permit the Company a $100 depreciation deduction. However, that deduction is realized over different time periods. It is this difference in timing between the US GAAP and the IRC that give rise to deferred taxes. Due to the difference in timing required by the IRC, the Company has deferred recognition of tax liabilities or benefits to a future period.

Q. HOW DO DEFERRED TAXES IMPACT A REGULATED UTILITY AND ATMOS ENERGY IN THIS CASE?

A. A utility is entitled to an opportunity to earn its allowed rate of return on its investment. A component of the overall cost of service necessarily includes the tax liability the utility will owe on its earnings. For cost of service, tax included in the revenue requirement encompasses not only current taxes payable, but taxes payable in the future or deferred taxes.

In this case, Atmos Energy will realize a liability equal to its earnings times the statutory rate. The liability will either be paid currently or at some point in the future. Since there is no dispute that Atmos Energy will generate revenue that is taxable and tax will eventually be paid on that revenue, the tax expense included in the cost of service should be equal to its earnings times the statutory rate.

From its earnings, the utility has cash funds available to pay its tax obligations to the government. The federal government, by way of favorable tax deductions such as bonus depreciation, accelerated depreciation and the repairs deduction, lowers the utility's current tax liability and provides funds to the utility in the current period. However, the utility's future tax liability will be increased and those funds will be remitted to the government in the future. Due to this timing difference, the net effect is that the government has provided a cost-free loan to the utility by virtue of a lower current tax bill due to the accelerated tax deductions. That cost-free loan will be repaid by higher tax bills in the future.

Q. WHAT CREATES AN ADIT ASSET OR DTA?

A. An ADIT asset (also referred to as a DTA in Mr. Kollen's testimony) is created when the tax liability differences I described result in a temporary increase to taxable income or the deferral of a tax deduction.

A common example is the difference associated with retirement or compensation plans. IRS rules generally limit the deduction of retirement or compensation until the time at which the benefit is paid. For book purposes, these plans accrue expense as the participant's benefits accumulate. The result is expenses are realized on the books for the accrual of the benefits but no deduction is taken on the tax return until the participant is paid. These delayed deductions increase the utility's current tax liability and therefore reduce the utility's funds in the current period. However, its future tax liability will be decreased and those funds will be returned to the utility in the future. The net effect is that the utility has advanced to the government a tax payment by virtue of a higher current tax bill due to the denial of a deduction until a later date. The tax advance will be recouped by lower tax bills in the future.

Q. HOW ARE DEFERRED TAXES TREATED FOR RATEMAKING PURPOSES?

A. For rate base, a deferred tax liability represents a cost-free loan provided by the government. Therefore, it is appropriate that rate base should be reduced for the amount of the deferred tax credit to reflect this amount. This allows customers to receive the benefit of the cost-free loan and not pay a rate of return on rate base financed at no cost.

Q. HOW IS THE LOAN REFLECTED ON A UTILITY'S BOOKS AND RECORDS?

A. The balance of the cost-free loan is reflected as the net ADIT credit recorded on the Company's books and records. An ADIT credit is quite simply the amount of the cost free loan.

Q. IS THE REDUCTION OF RATE BASE FOR NET ADIT LIABILITIES A STANDARD REGULATORY RATEMAKING PRACTICE?

A. Yes. This is the widely accepted treatment of ADIT liabilities and it is accepted in every state in which the Company operates.

IV. THE COMPANY HAS PROPERLY INCLUDED ADIT ASSETS AS AN INCREASE TO RATE BASE

Q. IN THIS FILING, DID THE COMPANY NET THE ADIT ASSETS WITH ADIT LIABILITIES IN CALULATING RATE BASE?

A. Yes.

Q. DID MR. KOLLEN PROPOSE ADJUSTMENTS?

A. Yes.

Q. PLEASE DESCRIBE THOSE ADJUSTMENTS.

A. For Category 1 ADIT assets Mr. Kollen has proposed to eliminate those ADIT assets from the calculation of rate base. His basis for that proposal is that none of the costs which give rise to the identified ADIT assets are included in operating expense nor are any associated liabilities deducted from rate base in determining the revenue requirement.[6]

For Category 2 ADIT assets Mr. Kollen has proposed to include the underlying liabilities associated with the ADIT assets as a reduction to rate base. He testifies that in order for the Category 2 ADIT assets to be included in rate base the associated liabilities must be deducted from rate base in determining the revenue requirement.[7] He makes the claim that the Company has not matched benefits and costs. As an alternative, he suggests that the ADIT assets should be removed from rate base if the liabilities are not deducted from rate base.

[6] *Id.* at 13, Lines 10-11.
[7] *Id.* at 14, Lines 17-19.

Q. HAS THE COMPANY AGREED TO REMOVE SOME OF THE CATEGORY 1 ADIT ASSETS FROM RATE BASE?

A. Yes. The Company has agreed to remove some of the Category 1 ADIT assets from rate base. The Company agreed that it would not oppose removing the DTAs related to the Company's MIP, VPP and restricted stock plans from rate base. The Company also agreed that it would not oppose removing the DTAs associated with charitable contributions and the associated valuation allowance from rate base. The Company does not agree that it is appropriate to remove from rate base the DTAs related to the Company's self-insurance plan or regulatory asset for benefits.

Q. WHY HAS THE COMPANY AGREED TO REMOVE THE DTAs DISCUSSED ABOVE?

A. The ADIT assets related to the Company's MIP, VPP and restricted stock plans, as well as the ADIT amounts for charitable contributions relate to items that are either not in cost of service or are "below the line" items that are excluded from cost of service. For example, the Company has not included in cost of service the expenses associated with the variable pay plan or the management incentive plan. Likewise, no liabilities associated with these items have been removed from rate base. The Company has also not included below the line expenses for charitable contributions.

Q. WHY DOES THE COMPANY DISAGREE WITH THE REMOVAL OF DTAs RELATED TO SELF-INSURANCE AND THE REGULATORY ASSET FOR BENEFITS?

A. The ADIT assets for the self-insurance plan and the regulatory asset for benefits relate to items that are included in cost of service. Despite being accrued on the books and included in cost of service, these items are not deductible by the Company for tax purposes until the amounts are paid. The Company has an expense in cost of service but has been denied a deduction on its tax return. The denial of these deductions results in an increase to the Company's tax liability until such time in which it is permitted a deduction. It is sound and proper ratemaking to match these ADIT assets with cost of service expense and the denial of the deduction on the Company's tax return. In order to reflect the proper amount of cost-free loan the utility has received from the government, these ADIT assets must remain in rate base until the company pays the insurance and benefits amounts and receives a deduction on its tax return.

The rebuttal testimony of Company witness Christian further discusses the Company's disagreement with the removal of the DTAs for these items.

Q. IS IT APPROPRIATE TO REMOVE THE CATEGORY 2 ADIT ASSETS FROM RATE BASE?

A. No.

Q. WHY NOT?

A. The ADIT assets identified as Category 2 also relate to items that are included in cost of service. Mr. Kollen acknowledges this in his testimony.[8] The items are related to benefit plans and compensation items. Similar to the costs associated with the self-insurance plan and the regulatory asset for benefits, these amounts are accrued on the books and included in cost of service, although not yet deductible on the Company's tax return. In order to reflect the proper amount of the cost-free loan the utility has received from the government, these ADIT assets must remain in rate base until the company pays participants and receives a deduction on its tax return.

Q. IS MR. KOLLEN CONSISTENT IN HIS RECOMMENDATION REGARDING CATEGORY 1 AND CATEGORY 2 ADIT ASSETS?

A. No.

Q. PLEASE EXPLAIN.

A. In his argument for excluding Category 1 ADIT assets, Mr. Kollen states that none of the items associated with the ADIT assets are included in operating expense nor are any associated liabilities included in rate base in determining the revenue

[8] *Id.* at 16, Lines 5-7.

requirement.[9] In Mr. Kollen's opinion, it is the failure to do one or the other that seems to trigger his removal of those ADIT assets.

For the Category 2 ADIT assets, Mr. Kollen states the ADIT assets are permissible based on a singular requirement that the associated liabilities are deducted from rate base in determining the revenue requirement.[10] He dismisses inclusion of the expenses in cost of service as a relevant fact for Category 2 ADIT assets.[11]

Q. DOES HE OFFER A REASON FOR THIS INCONSISTENT AND ARBITRARY APPROACH?

A. No.

Q. ARE THERE OTHER INCONSISTENCIES IN MR. KOLLEN'S TESTIMONY REGARDING DTAs?

A. Yes. Mr. Kollen identifies certain DTAs as belonging to Category 2 in his testimony but reflects them in a table supporting Category 1 amounts he proposes to remove from rate base. He describes his rationale for excluding the DTAs for self-insurance expense and Reg Asset Benefit Accrual on page 16, lines 5-11 of his testimony and designates these items as belonging to the second category of DTAs. However, he

[9] *Id.* at 13, Lines 10-11.
[10] *Id.* at 14, lines 17-19.
[11] *Id.* at 16, lines 5-7.

has included them in a table supporting Category 1 DTAs on page 17 of his testimony.

Q. DO THE LIABILITIES ASSOCIATED WITH THE CATEGORY 2 ADIT ASSETS HAVE TO BE REFLECTED AS A REDUCTION IN RATE BASE FOR THE ADIT ASSETS TO REMAIN IN RATE BASE?

A. No.

Q. WHY?

A. Inclusion of the ADIT assets in rate base results in the proper reflection of the cost-free loan that the Company has received as a result of the items included in cost of service and their effect on the Company's tax returns. This is the purpose of including ADIT in rate base and that goal should be accomplished regardless of whether the underlying liabilities are included in rate base.

Q. WOULD IT BE PROPER TO INCLUDE THE ASSOCIATED LIABILITIES IN RATE BASE AS RECOMMENDED BY MR. KOLLEN?

A. No. This treatment would be inconsistent with the rates approved by this Commission in Case No. 2013-00148. Company Witness Christian addresses this and the proper ratemaking treatment for the associated liabilities in his rebuttal testimony.

Q. HAS THE COMPANY AGREED THAT THESE ITEMS SHOULD BE REMOVED FROM RATE BASE?

A. No, as further discussed in Company Witness Christian's rebuttal testimony.

V. <u>NET OPERATING LOSS CARRYFORWARDS</u>

Q. WHAT IS A NET OPERATING LOSS CARRYFORWARD ("NOLC")?

A. The Company computes its taxable income in accordance with the IRC. Depending on the income and deductions reported on the Company's tax return, either taxable income or a tax net operating loss is reported on the tax return. Taxable income will result in the imposition of tax at the applicable tax rate. A tax net operating loss ("NOL") is realized when the Company's tax deductions exceed its earned income and all tax has been offset. Tax in future periods will be offset by the unused deductions. These unused tax deductions are reflected on the Company's tax returns and books and records as a carryforward of the net operating loss. These carryforwards ("NOLC") are used in future periods to offset tax. For NOLs generated prior to December 31, 2017, §172 of the IRC allows the NOLCs to be carried back to offset taxable income (generally to the two preceding years). Any loss remaining after the carryback is available to carry forward for up to 20 years and reduce taxable income in a future period. For NOLs generated after December 31, 2017, NOLCs may be carried forward indefinitely.

Q. WHAT ARE THE CONSEQUENCES OF AN NOLC?

A. An NOLC is simply deductions that were claimed on a prior tax return but not used to offset the tax liability in the period claimed. An NOLC therefore has the effect of moving those unused deductions forward to a subsequent year to offset the tax liability of the future period.

Q. HAVE ATMOS ENERGY CORPORATION'S REGULATED UTILITY OPERATIONS RESULTED IN TAXABLE LOSSES?

A. Yes. For the past nine fiscal years, the taxable income computations for the utility operations have reflected large taxable losses.

Q. HAVE THESE LOSSES RESULTED IN AN NOLC FOR THE COMPANY?

A. Yes. As of the filing of this case, for utility operations the Company had a federal NOL carryforward of $436,973,798 and a state NOL carryforward of $30,720,732. Both of these numbers are from the Company's filed tax returns.

Q. PLEASE EXPLAIN THE PRIMARY CAUSE OF THE TAX LOSSES AND NOLC.

A. The Company has realized significant deductions associated with bonus depreciation, accelerated depreciation and the deduction of capital expenditures as repairs for tax purposes.

Q. DID THESE DEDUCTIONS HAVE AN IMPACT ON THE COMPANY'S ADIT LIABILITY BALANCE?

A. Yes. These accelerated deductions resulted in a deferral of the Company's tax liability. Therefore, an ADIT liability was recorded on the Company's books and records to reflect this future obligation to the government.

Q. PLEASE EXPLAIN WHAT ADIT LIABILITIES ARE AND HOW THEY IMPACT RATE BASE.

A. As I have described, ADIT liabilities are realized because the Company's tax filings reflect tax deductions in excess of its book deductions, for example accelerated tax depreciation. These excess tax deductions offset the Company's current tax liability which allows the Company to retain cash that would have otherwise been paid to the government. This cash tax savings allowed by the government represents the cost-free loan from the government to the Company. Essentially an ADIT liability represents an obligation to pay this cost-free loan back to the government in the future and is therefore appropriately reflected as a reduction to rate base as cost-free capital.

Q. WHAT THEN IS THE SIGNIFICANCE OF THE NOLC GENERATED BY THESE DEDUCTIONS?

A. To the extent that these deductions gave rise to an NOLC, the deductions are not generating current tax savings. Therefore the ADIT credits have not yet resulted in a cost-free loan to the Company because the underlying deductions have not yet reduced the Company's tax liability.

Q. HOW IS AN NOLC REFLECTED IN THE COMPANY'S BOOKS AND RECORDS?

A. An NOLC is recorded as an ADIT asset. This asset represents a future cash flow from the government which will be realized when the Company has sufficient taxable income and a tax liability to reduce. Until that time, the tax deductions which have given rise to the NOLC have not produced any tax saving for the Company.

Q. HOW DOES THE RECORDING OF THE NOLC ADIT ASSET INTERACT WITH THE ADIT LIABILITY RECORDED FOR ACCELERATED DEUCTIONS?

A. The NOLC ADIT effectively reduces the ADIT liability recorded for accelerated deductions to the amount that has been loaned to the Company in the form of current tax savings.

Q. HAS THE COMPANY INCREASED RATE BASE TO REFLECT THESE NOLC ADIT ASSETS?

A. Yes. The Company has increased rate base for the proportionate share of these items allocable to Kentucky consistent with Case No. 2013-00148 and Case No. 2015-00343.

Q. WHAT IS THE SIGNIFICANCE OF THE NOLC FOR RATEMAKING?

A. The Company's ADIT credit balance represents the tax benefit of its favorable tax deductions regardless of whether or not they actually produced cash. An NOLC represents unused tax deductions beyond what is necessary to reduce current year taxable income to zero and tax deductions that the Company has on deposit with the government. There is no current cost-free loan associated with the NOLC, and thus, from a ratemaking perspective, it is inappropriate to have a reduction of rate base for the unused deferred taxes. Thus, the offset against rate base of accumulated deferred taxes must be limited to the amount of current benefit. The Company's proposed ratemaking treatment of including the NOLC ADIT asset in rate base achieves this by accurately reflecting the cash tax savings obtained by the Company when these savings are realized.

Q. IS THERE ANY JUSTIFICATION FOR IGNORING THE IMPACT OF THE NOLC ADIT ASSET?

A. No, there is not. If the effect of the Company's NOLC is ignored, then every dollar of accelerated depreciation and other favorable tax deductions claimed by the Company on its tax returns would reduce its rate base - even though, to the extent the deductions simply produced a NOLC, they would not yet have deferred any tax and, therefore, would not have produced any incremental cash for the Company. If, instead, the Company had claimed fewer such deductions - only enough to eliminate its taxable income but not enough to produce a NOLC - then it would be in the same cash position (that is, the Company still would have paid $0 tax) but the amount by which its rate base is reduced would be diminished. Rate treatment that ignores the impact of the Company's NOLC would disadvantage the Company more so if it claimed favorable tax deductions than if it did not claim them.

Q. WHAT IS MR. KOLLEN'S PROPOSAL FOR THE COMPANY'S NOLC ADIT ASSET?

A. Mr. Kollen proposes to disallow the NOLC ADIT asset from rate base.

Q. WHAT IS THE BASIS FOR MR. KOLLEN'S PROPOSAL?

A. His proposal to disallow the NOLC ADIT asset from rate base is based entirely on his erroneous conclusion that the Company has not reflected a reduction to income tax expense for the recording of the NOLC ADIT asset.

VI. <u>NOLC INCLUSION IN COST OF SERVICE TAX EXPENSE</u>

Q. PLEASE DESCRIBE HOW THE COST OF SERVICE TAX EXPENSE IS CALCULATED IN THIS FILING.

A. In light of the passage of the TCJA, the Company now accrues tax at a statutory rate of 25.7% on the projected earnings in the filing from January 1, 2018 going forward.

Q. HOW IS THE 25.7% COST OF SERVICE STATUTORY TAX RATE CALCULATED?

A. The tax rate of 25.7% is a composite federal and state statutory rate that includes 21% for federal taxes and 4.7% for Kentucky state taxes. The state tax rate of 4.7% is derived from the Kentucky state rate of 6% less the benefit the Company will realize from the deduction of the state income taxes on its federal return. The formula for calculating the effective state rate is the state rate times (1 minus the federal rate). (6% times (1-21%)) = 4.7%

Q. WHEN TAX IS ACCRUED USING A STATUTORY RATE WHAT IS THE EFFECT?

A. The use of a statutory tax rate results in the accrual of all federal and state taxes that will be due on those earnings in the current period **OR** the future. Use of this rate accrues both current and deferred taxes, including an ADIT asset for NOLC.

Q. PLEASE DESCRIBE HOW ADIT IS RECORDED?

A. An ADIT liability for items such as accelerated depreciation is recorded by debiting tax expense and crediting ADIT. An ADIT asset for items such as the NOLC is recorded by debiting ADIT and crediting income tax expense.

Q. WOULD THE STATUTORY TAX RATE YOU DESCRIBED RESULT IN THE RECORDING OF ALL ADIT LIABILITIES AND ASSETS?

A. Yes. The utilization of a statutory tax rate results in the recording of all current and deferred taxes, both ADIT liabilities and assets. The accrual of these items is simply embedded in the overall rate.

Q. WOULD THE STATUTORY TAX RATE YOU DESCRIBED RESULT IN THE RECORDING OF NOLC ADIT ASSET?

A. Yes.

Q. PLEASE PROVIDE AN EXAMPLE THAT DEMONSTRATES THIS?

A. For simplicity, assume the following:

Net earnings before taxes	$100
Statutory tax rate	21%
Bonus/accelerated depreciation in excess of book depreciation	($200)

In this example, the Company will have book earnings of $100, a taxable loss on its current tax return of ($100) and an NOL carryforward of $100 to offset taxable income in future periods. The Company will record the following to accrue taxes:

Tax expense debit for bonus/accelerated depreciation ($200 x 21%)	$42
Tax expense credit for NOLC ($100 x 21%)	($21)
ADIT asset for NOLC ($100 x 21%)	$21
ADIT liability for bonus/accelerated depreciation ($200 x 21%)	($42)

The above entry results in a net tax expense on its books and records of $21 ($42-$21), which is equal to its statutory rate of 21% times its earnings before tax.

Embedded in this expense is a $42 expense for establishing an ADIT liability for bonus/accelerated depreciation and $21 benefit for establishing an ADIT asset for an NOLC. The Company's balance sheet would reflect a net ADIT liability of $21.

In this same example, were the Company to make a filing before this Commission, the tax expense included in cost of service would be $21. That amount would be calculated in the filing workpapers as simply $100 of net earnings before taxes times the statutory tax rate. Rate base in the filing would reflect a $21 reduction for the net ADIT liability. This liability represents the $21 loan extended to the Company from the government in the form of tax deferral.

A statutory rate applied to net earnings, by its very nature, results in the accrual of all current and deferred taxes, including ADIT assets related to NOLC. Tax expense calculated using a statutory rate will always reflect the impact of an NOLC.

Q. ARE THERE ANY EXAMPLES IN THE COMPANY'S FINANCIAL STATEMENTS THAT DEMONSTRATE THIS?

A. Yes.

Q. HOW IS INCOME TAX EXPENSE CALCULATED AND DISCLOSED IN THE COMPANY'S FINANCIAL STATEMENTS?

A. Income taxes are calculated and disclosed in accordance with GAAP. Specifically, Accounting Standards Codification ("ASC") 740 provides the guiding principles and requirements for disclosing income tax expense in the Company's financial statements.

Q. DOES ASC 740 REQUIRE THE USE OF A STATUTORY RATE IN THE INCOME TAX DISCLOSE REQUIREMENTS?

A. Yes. The Company is required to provide a rate reconciliation within its income tax disclosures. The statutory federal tax rate is applied to pre-tax book income. The purpose of this reconciliation is to show the differences between the Company's effective tax rate and the statutory federal tax rate.

Q. DOES THE TAX EXPENSE CALCULATED ON THE RATE RECONCILIATION EQUAL THE CURRENT AND DEFERRED INCOME TAX EXPENSE REPORTED IN THE COMPANY'S INCOME STATEMENT?

A. Yes. The rate reconciliation in the Company's income tax footnote demonstrates that the statutory tax rate applied to earnings results in the accrual of both current and deferred income tax expense.

Q. WITH RESPECT TO THE REDUCTION OF TAX EXPENSE FOR THE NOLC, WHAT DOES MR. KOLLEN ALLEGE?

A. He alleges that the Company has not reduced income tax expense for the recording of the NOLC ADIT.

Q. HOW DOES MR. KOLLEN DRAW THIS INCORRECT CONCLUSION?

A. He appears to draw this conclusion from a faulty interpretation of the Commission's approach to the treatment of income taxes in filings made before the Commission.

Q. PLEASE EXPLAIN HOW MR. KOLLEN HAS MISINTERPRETED THE COMMISSION'S APPROACH TO INCOME TAXES IN FILINGS MADE BEFORE IT?

A. In his testimony, Mr. Kollen acknowledges that the Commission uses a formula methodology to calculate income tax expense whereby the statutory income tax is applied to earnings. He further acknowledges that within income tax expense the Commission does not distinguish between current and deferred income tax expense.[12] Those two items are true and not in dispute.

However, Mr. Kollen errs when he assumes that the lack of detail on current and deferred tax expense in the filing schedules means that deferred taxes and notably a reduction for the NOLC is not embedded in the income tax expense included in the filing. He erroneously concludes that the Commission does not and has not reduced income tax expense for the NOLC.[13]

[12] *Id.* at 22 lines 2-6.
[13] *Id.* at 22 lines 6-8.

Q. IS THAT TRUE?

A. No. As I have explained in my testimony and demonstrated by example, when using a statutory tax rate times earnings, the resulting tax expense includes all current and deferred taxes, including the reduction for an NOLC. This is true regardless of whether or not it is specifically disclosed on a schedule. The reduction in tax expense for the NOLC is embedded in the overall tax expense number.

Q. BASED ON THIS MISINTERPRETATION, HAS MR. KOLLEN MADE PROPOSALS REGARDING THE NOLC?

A. Yes. Mr. Kollen:

(1) states that the Company's facts in this filing are more closely aligned with a PLR issued to another taxpayer operating in another jurisdiction. (PLR 201418024)

(2) alleges that the Company's Request for PLR and the resulting PLR issued by the IRS are fundamentally flawed and cannot be relied upon; and

(3) proposes to disallow the NOLC DTA from rate base

Q. DO YOU AGREE WITH MR. KOLLEN THAT THE FACTS IN THIS CASE ARE MORE CLOSELY ALIGNED WITH PLR 2014-18024?

A. No

Q. PLEASE EXPLAIN PLR 2014-18024.

A. PLR 2014-18024 was issued to a taxpayer operating in a jurisdiction other than Kentucky. The regulatory authority in that jurisdiction excluded the NOLC ADIT asset from rate base. The IRS ruled that this exclusion was not a normalization violation *if* the tax expense in the filing has not been reduced by the benefit of the NOLC.

Q. BY WAY OF EXAMPLE, CAN YOU DEMONSTRATE WHAT TAX EXPENSE WOULD BE LIKE IF IT WERE CALCULATED IN A MANNER CONSISTENT WITH PLR 2014-18024?

A. Assume the same facts as the earlier example in my testimony:

Net earnings before taxes	$100
Statutory tax rate	21%
Bonus/accelerated depreciation in excess of book depreciation	($200)

As before, the Company will have book earnings of $100, a taxable loss on its current tax return of ($100) and an NOL carryforward of $100 to offset taxable income in future periods. The Company will record the following to accrue taxes:

Tax expense debit for bonus/accelerated depreciation	$42
Tax expense credit for NOLC *(zero because it is excluded)*	-
ADIT asset for NOLC *(zero because it is excluded)*	-
ADIT liability for bonus/accelerated depreciation	($42)

The above entry results in a tax expense of $42. This equates to a tax rate of 42% of earnings. This does not equal its statutory rate of 21% times its earnings before tax because the benefit of the NOL has been excluded from tax expense.

In this same example, were the taxpayer subject to this PLR to make a filing before the jurisdiction subject to the PLR, the tax expense included in cost of service would be $42 and not its statutory rate times earnings.

Q. HOW DO YOU KNOW THAT TAX EXPENSE IN THE FILING REFERENCED IN PLR 2014-18024 HAD NOT BEEN REDUCED TO REFLECT THE BENEFIT OF AN NOLC?

A. Mr. Kollen included language from PLR 2014-18024 in his rebuttal testimony.[14] On page 25, lines 11-15 the calculation of tax expense for the cost of service for the jurisdiction the taxpayer operates in is described. This description explains that the entire difference between accelerated tax and regulatory depreciation is included in the calculation of tax expense, regardless of whether a utility has an NOLC. This means that like the example consistent with PLR 2014-18024 that I provided previously, the benefit of the NOLC is not taken into account when calculating tax expense. Only the deferred tax expense resulting from depreciation differences is included in tax expense. Therefore, tax expense would not equal the statutory rate. This is further clarified in the PLR included on page 25, lines 25-27 of Mr. Kollen's

[14] Id. 25-26.

rebuttal testimony by the statement that this "allows a utility to collect tax expense from ratepayers equal to income taxes that would have been due absent the NOLC."

Q. IF THE BENEFIT OF THE NOLC IS EXCLUDED FROM TAX EXPENSE IN A MANNER CONSISTENT WITH PLR 201418024, WILL THE TAX EXPENSE EQUAL THE STATUORY RATE TIMES EARNINGS?

A. No.

Q. IF TAX EXPENSE AS DEFINED BY PLR 2014-18024 DOES NOT EQUAL THE STATUTORY RATE TIMES EARNINGS CAN THIS PLR BE ANALAGOUS TO RATE MAKING BEFORE THIS COMMISSION?

A. No.

Q. IS THIS PLR RELEVANT, PRECENDENTIAL OR APPLICABLE TO THE COMPANY, THIS COMMISSION OR THIS FILING?

A. No.

Q. PLEASE EXPLAIN.

A. First, a PLR is precedential only to the taxpayer to which it is issued and if it is a ruling regarding normalization it is only precedential for that jurisdiction. Second, as I have explained in my testimony and demonstrated by example, the Company in this filing did reduce tax expense for the NOLC. The facts in this filing do not match those of the PLR. Finally the Company has received its own PLR which is precedential for the Company and applicable to this jurisdiction.

Q. ARE YOU AWARE OF OTHER PLR'S THAT DISCUSS THIS ISSUE?

A. Yes. I am aware of many PLRs, in addition to the one received by the Company, that address the issue of tax normalization rules for a NOLC ADIT. Although these PLRs are not precedential for the Company in the Kentucky jurisdiction, they make clear that the IRS has consistently ruled that in order to avoid a normalization violation, the requirement to include the NOLC ADIT asset must be included in rate base. The following are PLRs addressing this issue:

Date Issued	PLR Number
February 9, 1988	8818040
September 5, 2014	201436037 and 201436038
September 19, 2014	201438003
May 8, 2015	201519021
November 27, 2015	201548017
March 3, 2017	201709008

A copy of the seven rulings is attached as Exhibit JKS-R-2.

Q. PLEASE DESCRIBE THESE RULINGS.

A. PLR 8818040 - A utility in 1985 and 1986 incurred substantial accelerated tax depreciation deductions. Not all of those deductions could be used and as a result the utility reported a NOLC on its tax returns. The utility proposed to reflect the deferred tax from tax depreciation in rate base in 1987, which is the year the NOLC would be used. The PLR held this approach would be consistent with the normalization rules.[15] One factor that was also addressed in the PLR was the difference in tax rates between 1987 and the earlier years. The IRS also ruled which

[15] Exhibit JKS-R-1, p.4

rate should be used to calculate the deferred taxes given the change in tax rate.[16] Regardless of the tax rate issue, the fact remains that the IRS ruled a NOLC ADIT asset should be considered when determining the proper amount of ADIT to apply to rate base.

More recently, the IRS has been very active in issuing PLRs related to the treatment of NOLC ADIT in ratemaking. Seven of the rulings included in this testimony and attached in Exhibit JKS-R-2 were issued during the period 2014-17. In each of those rulings the IRS concluded that (1) to the extent that the taxpayer's NOLC-related deferred tax adjustment ("DTA") is attributable to accelerated depreciation, it must reduce the ADIT balance by which rate base is reduced and (2) the NOLC is attributable to accelerated depreciation to the extent that the claiming of accelerated depreciation created or increased the NOLC in the taxable year (i.e., a "last dollars deducted" or "with and without" computation).[17]

In each of these cases, the NOLC ADIT was required to be included in rate base to comply with the normalization provisions.

Q. DOES MR. KOLLEN REFERENCE ANY OF THESE PLRS IN HIS TESTIMONY?

A. No he does not. He only references PLR 2014-18024 in support of his proposal.

[16] *See* Exhibit JKS-R-1, p.4
[17] *See* Exhibit JKS-R-1, p. 4, pp. 13-14 , p. 22, pp. 31-32, pp. 40-41, p. 48, pp. 56-57, p. 65

Q. DO YOU AGREE WITH MR. KOLLEN THAT THE COMPANY'S REQUEST FOR PLR AND THE RESULTING PLR ISSUED BY THE IRS ARE FUNDAMENTALLY FLAWED AND CANNOT BE RELIED UPON?

A. No.

Q. PLEASE EXPLAIN.

A. As I have explained in my testimony and demonstrated by example, the Company in this filing and in Case Nos. 2013-00148 and 2015-00343 did reduce tax expense by the benefit of the NOLC. In Case No. 2015-00343, the Company provided a copy of the PLR Request to this Commission prior to filing. By letter dated December 15, 2014, this Commission affirmed that it had reviewed the request and believed the facts as stated and rulings requested were adequate and complete.

Mr. Kollen bases his recommendations regarding the Company's PLR Request and the ruling on his allegation that the facts as represented by the Company and verified by this Commission were inaccurate. He incorrectly believes that the Company and this Commission have not reflected the NOLC in tax expense in this filing, in Case No. 2013-00148 or in Case No. 2015-00343. Given his mistake, his suggestion that the PLR cannot be relied upon is incorrect.

Q. HAS THE AG RAISED AN ISSUE IN THIS PROCEEDING REGARDING THE FACTUAL ACCURACY OF THE COMPANY'S PLR REQUEST AS APPROVED BY THE COMMISSION?

A. Yes.

Q. IS THIS THE APPROPRIATE TIME AND MANNER TO RAISE THIS ISSUE?

A. No.

Q. DID THE AG HAVE THE OPPORTUNITY TO RAISE THIS ISSUE PRIOR TO THE ISSUANCE OF THE COMPANY'S PLR?

A. Yes. The IRS has defined procedures for regulatory authorities and consumer advocates to provides comments or communicate with the IRS regarding the ruling requests. I would reference Exhibit JKS-1.[18] The AG was clearly notified of the Company's filing of the PLR Request by letter on November 7, 2014 and again on December 12, 2014. Both letters informed the AG that comments could be provided in accordance with Rev. Proc. 2014-1, Appendix E, Section .01. The November 7, 2014 letter specifically stated:

> If the taxpayer or the regulatory **authority informs a consumer advocate of the request for a letter ruling and the advocate wishes to communicate with the Service regarding the request, any such communication should be sent to**: Internal Revenue Service, Associate Chief Counsel (Procedure and Administration),

[18] *Id.*

> Attn: CC:PA:LPD:DRU, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044 (or, if a private delivery service is used: Internal Revenue Service, Associate Chief Counsel (Procedure and Administration), Attn: CC:PA:LPD:DRU, Room 5336, 1111 Constitution Ave., NW, Washington, DC 2D224). These communications will be treated as third party contacts for purposes of§ 6110 (emphasis added).

Q. DID THE AG PROVIDE COMMENTS TO THE IRS REGARDING THE RULING REQUEST?

A. Not to my knowledge.

Q. DO YOU AGREE WITH MR. KOLLEN THAT THE NOLC ADIT ASSET SHOULD BE REMOVED FROM RATE BASE?

A. No.

Q. PLEASE EXPLAIN.

A. Mr. Kollen's proposal is based entirely on his inaccurate conclusions that the Company excluded the NOLC from tax expense included in this filing. As I have explained in my testimony and demonstrated by example, the Company in this filing, in Case No. 2013-00148 and in Case No. 2015-00343 did reduce tax expense by the benefit of the NOLC.

Inclusion of the NOLC ADIT is an appropriate adjustment to rate base accepted by numerous commissions and based first and foremost on sound ratemaking principles. Failure to include it in rate base would result in a return requested from customers that would not be reflective of the economic realities embodied in the Company's tax filings and associated cash flow. Furthermore, inclusion of the NOLC in rate base would be consistent with this Commission's ruling in Case No. 2013-00148 and the PLR received by the Company from the IRS. The PLR is unambiguous in the determination that the NOLC must be included in rate base in order to avoid a normalization violation.

Q. WHAT ARE THE CONSEQUENCES IF THE IRS ASSERTS A NORMALIZATION VIOLATION?

A. The Company would lose the ability to claim accelerated tax depreciation on future tax returns. In addition, the Company would be required to file amended returns which recompute its tax liability for any affected taxable years. (Treas. Reg. §1.167(l)-1(h)(5)). A violation of the normalization rules would create severe detriment for both Atmos Kentucky and its Customers.

Q. WOULD THE COMPANY BE IN VIOLATION OF THE NORMALIZATION PROVISIONS IF MR. KOLLEN'S PROPOSAL TO REMOVE THE NOLC ADIT ASSET FROM RATE BASE WAS ACCEPTED?

A. Yes.

VII. DISCUSSION OF IMPACT OF THE REDUCTION IN FEDERAL CORPORATE TAX RATE ON THE COMPANY'S FINANCIAL OPERATIONS

Q. PLEASE PROVIDE A HIGH-LEVEL OVERVIEW OF THE IMPACTS OF THE REDUCTION IN FEDERAL CORPORATE TAX RATE TO THE COMPANY'S FINANCIAL OPERATIONS.

A. As a result of the reduction in the federal corporate tax rate, the Company was required to revalue its ADIT, including NOLC using the new statutory rate. The excess deferred taxes resulting from the reduction in the tax rate resulted both in the establishment of a regulatory liability and an impact to the Company's fiscal year ended September 30, 2018 earnings. In addition, the Company will take into account the tax rate change when calculating current year earnings.

Q. WHAT ADJUSTMENTS TO ADIT WERE THE COMPANY REQUIRED TO MAKE AS A RESULT OF THE REDUCTION IN FEDERAL CORPORATE TAX RATES?

A. As a result of the reduction in federal corporate tax rates, the Company was required to revalue the ADIT on its books at the new statutory rate. The reduction in the federal statutory rate reduces the future tax liabilities for which the Company has deferred tax liabilities recorded. In other words, the amount recorded on the Company's books prior to the tax law change is in excess of what the Company expects to pay the government in the future. The Company established a regulatory liability for the excess deferred taxes associated with items in rate base for each of the eight jurisdictions in which it operates. The Company will be required to refund this regulatory liability back to customers in a manner that conforms with the Internal Revenue Code and the regulators in each jurisdiction. The Company recognized a tax benefit in the first quarter of its fiscal year for the excess deferred taxes associated with items not included in rate base.

Q. DOES THE INTERNAL REVENUE CODE SPECIFY HOW THE REGULATORY LIABILITY FOR EXCESS DEFERRED TAXES SHOULD BE AMORTIZED TO CUSTOMERS?

A. Yes. The IRC specifies how the regulatory liability for certain excess deferred taxes should be amortized to customers. Section 13001 (d) of the TCJA specifically addresses the return of excess deferred income taxes in a manner similar to the Tax Reform Act of 1986. The TCJA requires that the amortization of excess deferred taxes comply with the normalization requirements and prohibits utilities from reducing the reserve for excess deferred income taxes more rapidly or to a greater extent than such reserve would be reduced under the Average Rate Assumption Method ("ARAM"). The TCJA also provides an alternative method for return of excess deferred income taxes for those regulated utilities whose records do not contain the necessary data to implement ARAM. The alternative method is known as the Reverse South Georgia method ("RSG"). At a high level, the IRC-prescribed amortization methodologies amortize the excess deferred tax liability back over the life of the underlying property that gave rise to the excess.

Q. WHAT DATA IS NECESSARY TO CALCULATE AMORTIZATION USING THE ARAM?

A. In order to amortize using the ARAM, the Company must have detailed property records at a vintage (tax year) level as used in the Company's regulated books of account. The property records must contain this vintage year data for both book and tax records. In other words, the book cost and book accumulated depreciation must be available by vintage account.

Q. DOES THE COMPANY MAINTAIN VINTAGE YEAR DATA FOR BOOK AND TAX RECORDS?

A. The Company does maintain vintage year data for book and tax property cost. The Company does not, however, maintain vintage year data for book accumulated depreciation records.

Q. WHY NOT?

A. The Company maintains its accounting records in accordance with FERC requirements and Generally Accepted Accounting Principles. Book depreciation is computed using the depreciation lives approved in the jurisdictions the Company operates in. In order to use the ARAM, the Company must calculate and track accumulated depreciation for assets by vintage. Since the FERC requirements and the methodology required in Kentucky do not require recording and tracking this type of detailed data, the Company has determined that it does not possess the detailed records necessary to use the ARAM.

Q. WHAT METHODOLOGY WILL THE COMPANY USE TO AMORTIZE EXCESS DEFERRED TAX LIABILITIES?

A. The Company will amortize excess deferred taxes utilizing the RSG method. In light of the Company's records and level of detail required by the FERC and the Kentucky Public Service Commission, the RSG method must be used.

Q. PLEASE DESCRIBE THE RSG METHOD OF AMORTIZING EXCESS DEFERRED TAX LIABILITIES.

A. RSG amortizes the excess deferred tax liability back over the life of the underlying property that gave rise to the excess. Under this method a taxpayer computes the excess tax reserve on all public utility property included in the plant account and amortizes such reserve on the basis of the weighted average life or the composite rate used to compute depreciation for regulatory purposes. This method reduces the excess tax reserve ratably over the remaining regulatory life of the property.

Q. DO THE NORMALIZATION REQUIREMENTS SPECIFY WHICH EXCESS DEFERRED INCOME TAXES MUST BE AMORTIZED USING RSG?

A. Yes. All utility property related excess deferred income taxes must be amortized using RSG. Property related excess deferred tax liabilities are those excess deferred taxes created by differences in book and tax methods for fixed asset cost basis adjustments and depreciation deductions. In addition, as I have described in my testimony, the Company's NOLCs are protected by the IRC normalization provisions. Therefore the excess deferred income taxes resulting from NOLCs must be amortized over the same period as the property related excess deferred income taxes.

Q. WHAT IS THE PENALTY FOR NOT COMPLYING WITH THE IRC RULES FOR AMORTIZING PROTECTED EXCESS DEFERRED TAX LIABILITIES?

A. The Internal Revenue Service will assert a normalization violation for any taxpayer who reduces the excess tax reserve more quickly than the reserve would be reduced under the allowable methods. A normalization violation results in the taxpayer's tax for the taxable year being increased by the amount by which it reduced the excess tax reserve more quickly than permitted. In addition, the taxpayer would lose the ability to deduct accelerated tax depreciation in the future and instead would only be allowed to deduct for tax purposes the amount of depreciation expensed for regulatory reporting purposes. This would remove the ADIT offset to rate base, which would effectively increase rate base, thus resulting in a higher overall cost of service with a corresponding increase in customer bills.

Q. WILL AMORTIZATION USING THE RSG METHOD COMPLY WITH THE NORMALIZATION PROVISIONS OF THE IRC?

A. Yes. The TCJA provides that a company that lacks the vintage level records and uses RSG to amortize public utility property will satisfy the normalization requirements.

Q. DOES THE IRC SPECIFY THE METHODOLOGY FOR AMORTIZATION OF EXCESS DEFERRED INCOME TAXES THAT ARE NOT PROPERTY RELATED?

A. No.

Q. HOW DOES THE COMPANY PROPOSE TO AMORTIZE NON-PROPERTY RELATED EXCESS DEFERRED TAXES?

A. The Company proposes to amortize all excess deferred income taxes, both property related and non-property related over the amortization period determined using the RSG method.

Q. WHAT WOULD HAPPEN IF THE COMPANY AMORTIZED ALL EXCESS DEFERRED TAXES BACK TO CUSTOMERS OVER 20 YEARS AS THE DECEMBER 27TH ORDER CONTEMPLATES?

A. The use of an amortization period unsupported by ARAM or RSG calculations would not comply with the TCJA and the normalization provisions. As explained above, the Company's property related excess deferred tax liabilities must be amortized using RSG. If the Company were to instead amortize over 20 years as the Commission's December 27th Order issued in Case No. 2017-00481 suggests, a normalization violation could be asserted by the IRS and the severe tax consequences I have described could occur. These consequences would be detrimental to both the Company and its Kentucky customers.

Q. WHAT ESTIMATED AMOUNTS HAVE BEEN INCLUDED IN THIS FILING?

A. The estimated excess deferred liability is $35.3 million. The regulatory liability the Company established for Kentucky excess deferred income taxes includes some estimated amounts that will be refined as the Company completes its accounting for its September 30th fiscal year end. In addition, the Company has estimated that the period for amortizing the regulatory liability for excess deferred income taxes is 24 years.

Q. WHY HAS THE COMPANY ESTIMATED THE AMOUNT OF THE REGULATORY LIABILITY FOR EXCESS DEFERRED INCOME TAXES?

A. The Company's fiscal year end is September 30th. The TCJA was signed into law on December 22, 2017, during the Company's first quarter of fiscal year ending September 30, 2018. Cumulative timing differences which generate ADIT are calculated based on the Company's fiscal year end. Until the Company has completed its year end and the book accounting for items giving rise to cumulative temporary differences are completed, estimates of the current year deferred taxes and resulting amounts to be recorded to the regulatory liability have been used.

Q. WHEN WILL THE COMPANY FINALIZE THE AMOUNT OF THE KENTUCKY REGULATORY LIABILITY FOR EXCESS DEFERRED INCOME TAXES?

A. First, the Company will refine its estimate of the cumulative differences generating the excess deferred taxes as part of the annual tax provision calculation performed in October 2018. The Company will have exact amounts after the filing of its federal income tax return.

Q. WHY HAS THE COMPANY ESTIMATED THE AMORTIZATION PERIOD OF THE REGULATORY LIABILITY FOR EXCESS DEFERRED INCOME TAXES?

A. The Company must first finalize the computation of the regulatory liability for excess deferred income taxes prior to finalizing the amortization for this amount. Then the Company's tax systems must be modified in order to calculate amortization using RSG. The Company is currently working with consultants to determine the time required to make these necessary modifications. Until such modifications are complete and the Company is able to perform a full and detailed computation of amortization, a high-level estimate has been prepared for use in this filing.

VIII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF	)	
RATE APPLICATION OF	)	Case No. 2017-00349
ATMOS ENERGY CORPORATION	)	

CERTIFICATE AND AFFIDAVIT

The Affiant, Jennifer K. Story, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared rebuttal testimony of this affiant in Case No. 2017-00349, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared rebuttal testimony.

Jennifer K. Story

Jennifer K. Story

STATE OF Texas

COUNTY OF Dallas

SUBSCRIBED AND SWORN to before me by Jennifer K. Story on this the 26th day of February, 2018.

Notary Public

My Commission Expires: 9/01/2020

GISELLE R HEROY
Notary Public, State of Texas
Comm. Expires 09-01-2020
Notary ID 13080484-2

COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

JACK CONWAY
ATTORNEY GENERAL

1024 CAPITAL CENTER DRIVE
SUITE 200
FRANKFORT, KENTUCKY 40601

December 12, 2014

Via electronic mail
Hon. Jeff DeRouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

RE: Atmos Energy Corporation, Case No. 2013-00148

Dear Mr. DeRouen:

At the request of staff for the Commission and in response to Atmos Energy Corporation's ("Atmos") request for approval of its draft request to the Internal Revenue Service ("IRS") for a Private Letter Ruling ("PLR") on the issue of net operating loss carry-forward ("NOLC"), the Attorney General files the following comments to the draft. Moreover, the Attorney General files this in reply to Atmos' letter of counsel dated December 12, 2014.

As quoted in Atmos' November 7, 2014 cover letter to the Commission, the Final Order in Case No. 2013-00148 requested "a more definitive assessment of [the] issue" regarding NOLC, which was addressed by the Attorney General's expert witness, Bion Ostrander, during the case proceedings. While the Commission did not adopt Mr. Ostrander's proposal, it did order Atmos to request a PLR that would eliminate the ambiguity in the regulations. The draft proposed does not eliminate the ambiguity, but rather requests that the IRS answer two (2) unnecessarily specific questions, which may be summarized as confirmation that there is enough ambiguity in the law to permit Atmos to treat NOLC the way it chose to treat it. As such, the letter as currently drafted does not comport with the Commission's Order.

Rather, the question that should be presented is whether other options for treating the NOLC are reasonable and may be required by the Commission. In other words, the question presented should ask the broader question of whether the IRS requires a specific method to be used. At pages 23 to 29 of the draft letter, Atmos discusses the three (3) options or methodologies: (1) the "last dollars deducted method" (also known as the "with or without" method), (2) the "first dollars deducted" method, and (3) a ratable allocation. However, the rulings requested at page 9 of the draft only ask whether a computation on a "last dollars deducted" method is allowable. The Attorney General posits that the IRS has not cited a specific method, therefore the ratable allocation, for example, is an option that Atmos could utilize were the Commission to direct it to do so. At a minimum, the rulings requested on page 9 of the letter draft should more broadly address all approaches available to the IRS, including but not limited to "the ratable allocation method (and other allocation approaches available to the Service)."

The Attorney General requests that the Commission direct Atmos to consult its tax counsel and draft the letter and the PLR request in a manner that definitively addresses whether Atmos may legally adopt any of the methods referenced and still comply with the requirements of the Internal Revenue Code and Treasury Regulations.

Tendered by:

Jennifer Black Hans

Jennifer Black Hans
Executive Director

And

Gregory T. Dutton
Assistant Attorney General

Cc: Hon. John N. Hughes
Mark Martin
Richard Raff
Virginia Gregg

JOHN N. HUGHES
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December 12, 2014

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Atmos Energy Corporation
Case No. 2103-00148

Dear Mr. Derouen:

The Attorney General's email of yesterday related to the Private Letter Ruling (PLR) request of Atmos Energy contains nothing substantive to support its beliefs that the letter is improperly or inadequately drafted. Citing no legal authority or other basis for its contentions, the Attorney General seeks to become a participant in the drafting of the PLR. The Internal Revenue Service (IRS) revenue procedures cited in the November 7, 2014 letter to the Commission from Atmos Energy provide the only procedures for the submission of the PLR. This letter is not a joint or collaborative venture. The request for a ruling, its tone, tenor and substance is exclusively the province of the taxpayer. The opportunity for the AG to comment is specified in the IRS revenue procedures – a letter submitted to the IRS after the PLR has been submitted. The AG has no allowable participation in the drafting, review or submission of the PLR. The role of the Commission is also specified: an acknowledgement that the letter is adequate and complete. That role does not provide an opportunity for the Commission to be a co-author of the letter or to specify the terms of the letter. Even if there is disagreement about the content of the letter, Atmos as the taxpayer has the ultimate responsibility for its content. Given the explicit procedural requirements of the PLR process, the Attorney General's beliefs and opinions on the method of drafting the letter, submission of comments to the Commission and content of the letter are unsupported and unsupportable.

The PLR comports with the Commission's directive in the final order – it seeks a definitive ruling on whether not including net operating loss carryforward (NOLC) would be a normalization violation. Atmos Energy has included a request for determination of the appropriate allocation methodology as well. The PLR mentions all allocation methods and discusses the merits of them beginning on page 24. It also addresses pitfalls with the ratable allocation approach specifically. (See pages 25-26). The PLR asks for the IRS's conclusion that the "with and without" methodology is the preferable and permissible methodology. Contrary to the AG's assertion, Atmos Energy has not neglected a proper discussion of other methodologies of the appropriate allocation.

Finally, the AG seems to suggest that the request be reworked to allow the IRS to opine that many options are available. Atmos Energy believes that a request crafted as such would not be received favorably by the IRS. Taxpayer ruling requests by definition are to be narrowly crafted and request a specific ruling, not a menu of options. Ruling requests that are broad, offer choices or do not reach a conclusion take longer to complete and can be at risk for getting an inconclusive or ambiguous outcome.

A meeting to discuss these issues is unnecessary and inappropriate. It would only impede the orderly process mandated by the IRS revenue procedures. The AG has no legal basis or authority to deviate from or to modify the Commission's role in the PLR process. Atmos is not opposed to comments by the AG, but those comments should be submitted in accord with the IRS procedures. Even if the AG were to provide the Commission with comments, those comments would not be incorporated into the PLR request. While those comments may inform the Commission of the AG's stance on the letter, they will have no direct impact on the substance of the letter itself. The drafting of the PLR is not a negotiated, mutually agreed to process.

If the Commission determines that it is unable to acknowledge the completeness of the letter as a result of the AG's comments, Atmos would still be obligated to submit the PLR to the IRS pursuant to the final order in this case. The effect of that action likely would result in a conference with the IRS to verify that Atmos has meet the procedural requirements related to the Commission's participation in the process. For these reasons, Atmos Energy submits that the Commission should acknowledge the PLR for adequacy and completeness. Upon submission of the letter to the IRS, the Attorney General will have the ability to submit comments commensurate with the terms of the IRS revenue procedures.

Submitted By:

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November 7, 2014

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Atmos Energy Corporation

Dear Mr. Derouen:

In its Order dated April 22, 2014 in Case No. 2013-00148, the Commission directed Atmos Energy Corporation (Atmos Energy) to submit a request to the Internal Revenue Service (IRS) for a Private Letter Ruling (PLR) on the issue of Net Operating Loss Carry-forward (NOLC). Specifically, the Commission stated:

> Although we are rejecting the AG's proposal, the aforementioned ambiguity in the regulations and the significantly different interpretations of those regulations by the AG and Atmos-Ky. cause the Commission to conclude that it would be beneficial to have a more definitive assessment of this issue. Therefore, we find that Atmos-Ky. should seek a private-letter ruling from the IRS with the intent that such ruling be filed with the application in Atmos-Ky.'s next general rate case. (Order of April 22, 2014, Case No. 2013-00148, p. 7)

To comply with that directive, Atmos Energy has in consultation with its outside tax attorneys prepared a draft letter seeking a ruling on the regulatory implications of including NOLC in rate base. The letter sets forth the factual and legal issues to be resolved and requests a ruling on the specific issues raised. A copy of the letter is attached.

The IRS regulation for submitting a request for a PLR of this nature requires the Commission to review the letter and to acknowledge that the request is adequate and complete:

Excerpt from Rev. Proc. 2014-1, Appendix E, Section .01:

Rate orders; regulatory agency; normalization A letter ruling request that involves a question of whether a rate order that is proposed or issued by a regulatory agency will meet the normalization requirements of § 168(f)(2) (pre-Tax Reform Act of 1986, § 168(e)(3)) and former §§ 46(f) and 167(l) ordinarily **will not be considered unless the taxpayer states in the letter ruling request whether—**
(1) the regulatory authority responsible for establishing or approving the taxpayer's rates has reviewed the request and believes that the request is adequate and complete; and
(2) the taxpayer will permit the regulatory authority to participate in any Associate office conference concerning the request.
If the taxpayer or the regulatory authority informs a consumer advocate of the request for a letter ruling and the advocate wishes to communicate with the Service regarding the request, any such communication should be sent to: Internal Revenue Service, Associate Chief Counsel (Procedure and Administration), Attn: CC:PA:LPD:DRU, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044 (or, if a private delivery service is used: Internal Revenue Service, Associate Chief Counsel (Procedure and Administration), Attn: CC:PA:LPD:DRU, Room 5336, 1111 Constitution Ave., NW, Washington, DC 20224). These communications will be treated as third party contacts for purposes of § 6110.

Atmos Energy's submission of the proposed PLR to the Commission is for the purpose of complying with the regulation. After the Commission has reviewed the letter, representatives of Atmos Energy will be available to meet with the Commissioners and staff to respond to any questions about the substance of the letter or the filing procedures.

Once there is an agreement among Atmos Energy and the Commission regarding the adequateness and completeness of the PLR request, the Commission must acknowledge its review of and concurrence with the letter. To assist the Commission with the preparation of that acknowledgement, a draft letter is attached. The content of the letter conforms to the typical form and substance of similar letters from regulatory agencies. A copy of that letter will be submitted to the IRS with the PLR request.

As the regulation cited above states, if a consumer advocate - in this case the Attorney General's Office of Rate Intervention - is notified of the PLR request, it may submit comments directly to the IRS after the PLR request has been submitted to the IRS. Atmos Energy intends to provide a copy of the PLR request to the Attorney General after it is filed with the IRS as the regulation provides.

Atmos Energy anticipates that the IRS will take between four and six months to issue a ruling. It would like to submit the PLR request no later than December 15, 2014. To meet that objective, Atmos Energy would like to conclude its discussions with the Commission prior to that date.

Should you have any questions or if you would like to schedule a conference with Atmos Energy representatives to discuss these issues, please contact me.

Submitted By:

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Attorneys for Atmos Energy Corporation

Department of the Treasury
Internal Revenue Service
Private Letter Ruling

PLR 201534001 - Section 167 - Depreciation

Internal Revenue Service
Department of the Treasury
Washington, DC 20224

Number: 201534001
Release Date: 8/21/2015
Index Number: 167.22-01

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
Telephone Number:

Refer Reply To:
CC:PSI:B06 PLR-103300-15
Date:
May 13, 2015

LEGEND:

Taxpayer =
State A =
State B =
State C =
Commission =
Year A =
Year B =
Date A =
Date B =
Date C =
Date D =
Case =
Director =

Dear [redacted data]:

This letter responds to the request, dated January 9, 2015, submitted on behalf of Taxpayer for a ruling on the application of the normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is the common parent of an affiliated group of corporations and is incorporated under the laws of State A and State B. Taxpayer is engaged primarily in the businesses of regulated natural gas distribution, regulated natural gas transmission, and regulated natural gas storage. Taxpayer's regulated natural gas distribution business delivers gas to customers in several states, including State A. Taxpayer is subject to, as relevant for this ruling, the regulatory jurisdiction of Commission with respect to terms and conditions of service and as to the rates it may charge for the provision of its gas distribution service in State A. Taxpayer's rates are established on a “rate of return” basis.

Taxpayer filed a rate case application on Date A (Case). In its filing, Taxpayer's application was based on a fully forecasted test period consisting of the twelve months ending on Date B. Taxpayer updated, amended, and supplemented its data several times during the course of the proceedings. In a final order dated Date C, rates were approved by Commission for service rendered on or after Date D.

In each year from Year A to Year B, Taxpayer incurred a net operating loss carryforward (NOLC). In each of these years, Taxpayer claimed accelerated depreciation, including “bonus depreciation” on its tax returns to the extent that such depreciation was available. On its regulatory books of account, Taxpayer “normalizes” the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of accelerated tax depreciation) were claimed constitute “cost-free capital” to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries - a “deferred tax asset” and a “deferred tax expense” - that reflect that portion of those ‘tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of an NOLC.

In the setting of utility rates in State C, a utility's rate base is offset by its ADIT balance. In its rate case filing and throughout the proceeding, Taxpayer maintained that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Thus, Taxpayer argued that the rate base should be reduced by its federal ADIT balance net of the deferred tax asset account attributable to the federal NOLC. It also asserted that the failure to reduce its rate base offset by the deferred tax asset attributable to the federal NOLC would be inconsistent with the normalization rules. The attorney general for State C argued against Taxpayer's proposed calculation of ADIT.

Commission, in its final order, agreed with Taxpayer but concluded that the ambiguity in the relevant normalization regulations warranted an assessment of the issue by the IRS and this ruling request followed.

Taxpayer requests that we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balance unreduced by the balance of its NOLC-related account balance would be inconsistent with (and, hence, violative of) the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

2. For purposes of Ruling 1 above, the use of a balance of Taxpayer's NOLC-related account that is less than the amount attributable to accelerated depreciation computed on a “last dollars deducted” basis would be inconsistent with (and, hence, violative of) the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii) , if the amount allowable as a deduction under s ection 168 differs from the amount that- would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i) , the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under section 168(i)(9)(B)(ii) , such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii) , unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a “normalization method of accounting.” A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A) . Section 1.167(l)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(l)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) re sults in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(l)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(l)-1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a) .

Section 1.167(l)-1(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(l)-1(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(l)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

Regarding the first issue, § 1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the ADIT account, the reserve account for deferred taxes, reduces rate base, it is clear that the portion of an NOLC that is attributable to accelerated depreciation must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT). Thus, to reduce Taxpayer's rate base by the full amount of its ADIT account balance unreduced by the balance of its NOLC-related account balance would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1.

Regarding the second issue, § 1.167(l)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Section 1.167(l)-1(h)(1)(iii) provides generally that, if, in respect of any year, the use of other than regulatory depreciation for tax purposes results in an NOLC carryover (or an increase in an NOLC which would not have arisen had the taxpayer claimed only regulatory depreciation for tax purposes), then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director. While that section provides no specific mandate on methods, it does provide that the Service has discretion to determine whether a particular method satisfies the normalization requirements. The “last dollars deducted” methodology employed by Taxpayer ensures that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and prevents the possibility of “flow through” of the benefits of accelerated depreciation to ratepayers. Under these specific facts, any method other than the “last dollars deducted” method would not provide the same level of certainty and therefore the use of any other methodology is inconsistent with the normalization rules.

This ruling is based on the representations submitted by Taxpayer and is only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman
Senior Technician Reviewer, Branch 6
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Department of the Treasury
Internal Revenue Service
Private Letter Ruling

PLR 201436037 - Section 167 - Depreciation

Internal Revenue Service
Department of the Treasury
Washington, DC 20224

Number: 201436037
Release Date: 9/5/2014
Index Number: 167.22-01
Third Party Communication:
Date of Communication:
Person To Contact:
Telephone Number:
Refer Reply To:
CC:PSI:B06
PLR-148310-13
Date:
May 22, 2014

LEGEND:

Taxpayer =
Parent =
State A =
State B =
State C =
Commission A =
Commission B =
Commission C =
Year A =
Year B =
Date A =
Date B =
Date C =
Case =
Director =

Dear [redacted data]:

This letter responds to the request, dated November 25, 2013, of Taxpayer for a ruling on the application of the normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is a regulated public utility incorporated in State A and State B. It is wholly owned by Parent. Taxpayer is engaged in the transmission, distribution, and supply of electricity in State A and State C. Taxpayer is subject to the regulatory jurisdiction of Commission A, Commission B, and Commission C with respect to terms and conditions of service and particularly the rates it may charge for the provision of service. Taxpayer's rates are established on a rate of return basis. Taxpayer takes accelerated depreciation, including “bonus depreciation” where available and, for each year beginning in Year A and ending in Year B, Taxpayer individually (as well as the consolidated return filed by Parent) has or expects to, produce a net operating loss (NOL). On its regulatory books of account, Taxpayer “normalizes” the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of

accelerated tax depreciation) were claimed constitute “cost-free capital” to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries _a “deferred tax asset” and a “deferred tax expense” -that reflect that portion of those ‘tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of an net operating loss carryover (NOLC). Taxpayer, for normalization purposes, calculates the portion of the NOLC attributable to accelerated depreciation using a “with or without” methodology, meaning that an NOLC is attributable to accelerated depreciation to the extent of the lesser of the accelerated depreciation or the NOLC.

Taxpayer filed a general rate case with Commission B on Date A (Case). The test year used in the Case was the 12 month period ending on Date B. In computing its income tax expense element of cost of service, the tax benefits attributable to accelerated depreciation were normalized in accordance with Commission B policy and were not flowed thru to ratepayers. The data originally filed in Case included six months of forecast data, which the Taxpayer updated with actual data in the course of proceedings. In establishing the rate base on which Taxpayer was to be allowed to earn a return Commission B offset rate base by Taxpayer's ADIT balance, using a 13month average of the month-end balances of the relevant accounts. Taxpayer argued that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Testimony by various other participants in Case argued against Taxpayer's proposed calculation of ADIT. One proposal made to Commission B was, if Commission B allowed Taxpayer to reduce the ADIT balance as Taxpayer proposed, then Taxpayer's income tax expense element of service should be reduced by that same amount.

Commission B, in an order issued on Date C, allowed Taxpayer to reduce ADIT by the amount that Taxpayer calculates did not actually defer tax due to the presence of the NOLC and ordered Taxpayer to seek a ruling on the effects of an NOLC on ADIT. Rates went into effect on Date C.

Taxpayer proposed, and Commission B accepted, that it be permitted to annualize, rather than average, its reliability plant additions and to extend the period of anticipated reliability plant additions to be included in rate base for an additional quarter. Taxpayer also proposed, and Commission B accepted, that no additional ADIT be reflected as a result of these adjustments inasmuch as any additional book and tax depreciation produced by considering these assets would simply increase Taxpayer's NOLC and thus there would be no net impact on ADIT.

Taxpayer requests that we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLCrelated account balance that is less than the amount attributable to accelerated depreciation computed on a “with or without” basis would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
2. The imputation of incremental ADIT on account of the reliability plant addition adjustments described above would be inconsistent with the requirements of § 168(i)(9) and §1.167(l)-1.
3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii) , if the amount allowable as a deduction under s ection 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i) , the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements.

Under section 168(i)(9)(B)(ii) , such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii) , unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a “normalization method of accounting.” A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A) . Section 1.167(1)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(1)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) re sults in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(1)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(1)1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a) .

Section 1.167(1)-(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(1)-(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(1)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in

which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

In Case, Commission B has reduced rate base by Taxpayer's ADIT account, as modified by the account which Taxpayer has designed to calculate the effects of the NOLC. Section 1.167(1)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Further, while that section provides no specific mandate on methods, it does provide that the Service has discretion to determine whether a particular method satisfies the normalization requirements. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the ADIT account, the reserve account for deferred taxes, reduces rate base, it is clear that the portion of an NOLC that is attributable to accelerated depreciation must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT). Thus, the order by Commission B is in accord with the normalization requirements. The “with or without” methodology employed by Taxpayer is specifically designed to ensure that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and preventsthe possibility of “flow through” of the benefits of accelerated depreciation to ratepayers. Under these facts, any method other than the “with and without” method would not provide the same level of certainty and therefore the use of any other methodology is inconsistent with the normalization rules.

Regarding the second issue, §1.167(1)-(h)(6)(i) provides, as noted above, that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Increasing Taxpayer's ADIT account by an amount representing those taxes that would have been deferred absent the NOLC increases the ADIT reserve account (which will then reduce rate base) beyond the permissible amount.

Regarding the third issue, reduction of Taxpayer's tax expense element of cost of service, we believe that such reduction would, in effect, flow through the tax benefits of accelerated depreciation deductions through to rate payers even though the Taxpayer has not yet realized such benefits. This would violate the normalization provisions.

We rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLC related account balance that is less than the amount attributable to accelerated depreciation computed on a “with or without” basis would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
2. The imputation of incremental ADIT on account of the reliability plant addition adjustments described above would be inconsistent with the requirements of § 168(i)(9) and §1.167(l)-1.
3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1.

This ruling is based on the representations submitted by Taxpayer and is only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman

Senior Technician Reviewer, Branch 6
(Passthroughs & Special Industries)

cc:

Department of the Treasury
Internal Revenue Service
Private Letter Ruling

PLR 201436037 - Section 167 - Depreciation

Internal Revenue Service
Department of the Treasury
Washington, DC 20224

Number: 201436037
Release Date: 9/5/2014
Index Number: 167.22-01
Third Party Communication:
Date of Communication:
Person To Contact:
Telephone Number:
Refer Reply To:
CC:PSI:B06
PLR-148310-13
Date:
May 22, 2014

LEGEND:

Taxpayer =
Parent =
State A =
State B =
State C =
Commission A =
Commission B =
Commission C =
Year A =
Year B =
Date A =
Date B =
Date C =
Case =
Director =

Dear [redacted data]:

This letter responds to the request, dated November 25, 2013, of Taxpayer for a ruling on the application of the normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is a regulated public utility incorporated in State A and State B. It is wholly owned by Parent. Taxpayer is engaged in the transmission, distribution, and supply of electricity in State A and State C. Taxpayer is subject to the regulatory jurisdiction of Commission A, Commission B, and Commission C with respect to terms and conditions of service and particularly the rates it may charge for the provision of service. Taxpayer's rates are established on a rate of return basis. Taxpayer takes accelerated depreciation, including “bonus depreciation” where available and, for each year beginning in Year A and ending in Year B, Taxpayer individually (as well as the consolidated return filed by Parent) has or expects to, produce a net operating loss (NOL). On its regulatory books of account, Taxpayer “normalizes” the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of

accelerated tax depreciation) were claimed constitute “cost-free capital” to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries _a “deferred tax asset” and a “deferred tax expense” -that reflect that portion of those ‘tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of an net operating loss carryover (NOLC). Taxpayer, for normalization purposes, calculates the portion of the NOLC attributable to accelerated depreciation using a “with or without” methodology, meaning that an NOLC is attributable to accelerated depreciation to the extent of the lesser of the accelerated depreciation or the NOLC.

Taxpayer filed a general rate case with Commission B on Date A (Case). The test year used in the Case was the 12 month period ending on Date B. In computing its income tax expense element of cost of service, the tax benefits attributable to accelerated depreciation were normalized in accordance with Commission B policy and were not flowed thru to ratepayers. The data originally filed in Case included six months of forecast data, which the Taxpayer updated with actual data in the course of proceedings. In establishing the rate base on which Taxpayer was to be allowed to earn a return Commission B offset rate base by Taxpayer's ADIT balance, using a 13month average of the month-end balances of the relevant accounts. Taxpayer argued that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Testimony by various other participants in Case argued against Taxpayer's proposed calculation of ADIT. One proposal made to Commission B was, if Commission B allowed Taxpayer to reduce the ADIT balance as Taxpayer proposed, then Taxpayer's income tax expense element of service should be reduced by that same amount.

Commission B, in an order issued on Date C, allowed Taxpayer to reduce ADIT by the amount that Taxpayer calculates did not actually defer tax due to the presence of the NOLC and ordered Taxpayer to seek a ruling on the effects of an NOLC on ADIT. Rates went into effect on Date C.

Taxpayer proposed, and Commission B accepted, that it be permitted to annualize, rather than average, its reliability plant additions and to extend the period of anticipated reliability plant additions to be included in rate base for an additional quarter. Taxpayer also proposed, and Commission B accepted, that no additional ADIT be reflected as a result of these adjustments inasmuch as any additional book and tax depreciation produced by considering these assets would simply increase Taxpayer's NOLC and thus there would be no net impact on ADIT.

Taxpayer requests that we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLCrelated account balance that is less than the amount attributable to accelerated depreciation computed on a “with or without” basis would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
2. The imputation of incremental ADIT on account of the reliability plant addition adjustments described above would be inconsistent with the requirements of § 168(i)(9) and §1.167(l)-1.
3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii) , if the amount allowable as a deduction under s ection 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i) , the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements.

Under section 168(i)(9)(B)(ii) , such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii) , unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a “normalization method of accounting.” A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A) . Section 1.167(1)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(1)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) re sults in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(1)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(1)1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a) .

Section 1.167(1)-(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(1)-(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(1)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in

which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

In Case, Commission B has reduced rate base by Taxpayer's ADIT account, as modified by the account which Taxpayer has designed to calculate the effects of the NOLC. Section 1.167(1)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Further, while that section provides no specific mandate on methods, it does provide that the Service has discretion to determine whether a particular method satisfies the normalization requirements. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the ADIT account, the reserve account for deferred taxes, reduces rate base, it is clear that the portion of an NOLC that is attributable to accelerated depreciation must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT). Thus, the order by Commission B is in accord with the normalization requirements. The “with or without” methodology employed by Taxpayer is specifically designed to ensure that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and preventsthe possibility of “flow through” of the benefits of accelerated depreciation to ratepayers. Under these facts, any method other than the “with and without” method would not provide the same level of certainty and therefore the use of any other methodology is inconsistent with the normalization rules.

Regarding the second issue, §1.167(1)-(h)(6)(i) provides, as noted above, that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Increasing Taxpayer's ADIT account by an amount representing those taxes that would have been deferred absent the NOLC increases the ADIT reserve account (which will then reduce rate base) beyond the permissible amount.

Regarding the third issue, reduction of Taxpayer's tax expense element of cost of service, we believe that such reduction would, in effect, flow through the tax benefits of accelerated depreciation deductions through to rate payers even though the Taxpayer has not yet realized such benefits. This would violate the normalization provisions.

We rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLC related account balance that is less than the amount attributable to accelerated depreciation computed on a “with or without” basis would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
2. The imputation of incremental ADIT on account of the reliability plant addition adjustments described above would be inconsistent with the requirements of § 168(i)(9) and §1.167(l)-1.
3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1.

This ruling is based on the representations submitted by Taxpayer and is only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman

Senior Technician Reviewer, Branch 6
(Passthroughs & Special Industries)

cc:

Department of the Treasury
Internal Revenue Service
Private Letter Ruling

PLR 201436038 - Section 167 - Depreciation

Internal Revenue Service
Department of the Treasury
Washington, DC 20224

Number: 201436038
Release Date: 9/5/2014
Index Number: 167.22-01
Third Party Communication:
Date of Communication:
Person To Contact:
Telephone Number:
Refer Reply To:
CC:PSI:B06
PLR-148311-13
Date:
May 22, 2014

LEGEND:

Taxpayer =
Parent =
State A =
State B =
State C =
Commission A =
Commission B =
Commission C =
Year A =
Year B =
Date A =
Date B =
Date C =
Case =
Director =

Dear [redacted data]:

This letter responds to the request, dated November 25, 2013, of Taxpayer for a ruling on the application of the normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is a regulated public utility incorporated in State A and State B. It is wholly owned by Parent. Taxpayer is engaged in the transmission, distribution, and supply of electricity in State A and State C. Taxpayer is subject to the regulatory jurisdiction of Commission A, Commission B, and Commission C with respect to terms and conditions of service and particularly the rates it may charge for the provision of service. Taxpayer's rates are established on a rate of return basis. Taxpayer takes accelerated depreciation, including “bonus depreciation” where available and, for each year beginning in Year A and ending in Year B, Taxpayer individually (as well as the consolidated return filed by Parent) has or expects to, produce a net operating loss (NOL). On its regulatory books of account, Taxpayer “normalizes” the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of

accelerated tax depreciation) were claimed constitute “cost-free capital” to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries _a “deferred tax asset” and a “deferred tax expense” -that reflect that portion of those ‘tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of an net operating loss carryover (NOLC). Taxpayer, for normalization purposes, calculates the portion of the NOLC attributable to accelerated depreciation using a “with or without” methodology, meaning that an NOLC is attributable to accelerated depreciation to the extent of the lesser of the accelerated depreciation or the NOLC.

Taxpayer filed a general rate case with Commission B on Date A (Case). The test year used in the Case was the 12 month period ending on Date B. In computing its income tax expense element of cost of service, the tax benefits attributable to accelerated depreciation were normalized in accordance with Commission B policy and were not flowed thru to ratepayers. The data originally filed in Case included six months of forecast data, which the Taxpayer updated with actual data in the course of proceedings. In establishing the rate base on which Taxpayer was to be allowed to earn a return Commission B offset rate base by Taxpayer's ADIT balance, using a 13month average of the month-end balances of the relevant accounts. Taxpayer argued that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Testimony by various other participants in Case argued against Taxpayer's proposed calculation of ADIT. One proposal made to Commission B was, if Commission B allowed Taxpayer to reduce the ADIT balance as Taxpayer proposed, then Taxpayer's income tax expense element of service should be reduced by that same amount.

Commission B, in an order issued on Date C, allowed Taxpayer to reduce ADIT by the amount that Taxpayer calculates did not actually defer tax due to the presence of the NOLC and ordered Taxpayer to seek a ruling on the effects of an NOLC on ADIT. Rates went into effect on Date C.

Taxpayer proposed, and Commission B accepted, that it be permitted to annualize, rather than average, its reliability plant additions and to extend the period of anticipated reliability plant additions to be included in rate base for an additional quarter. Taxpayer also proposed, and Commission B accepted, that no additional ADIT be reflected as a result of these adjustments inasmuch as any additional book and tax depreciation produced by considering these assets would simply increase Taxpayer's NOLC and thus there would be no net impact on ADIT.

Taxpayer requests that we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLCrelated account balance that is less than the amount attributable to accelerated depreciation computed on a “with or without” basis would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
2. The imputation of incremental ADIT on account of the reliability plant addition adjustments described above would be inconsistent with the requirements of § 168(i)(9) and §1.167(l)-1.
3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii) , if the amount allowable as a deduction under s ection 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i) , the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements.

Under section 168(i)(9)(B)(ii) , such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii) , unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a “normalization method of accounting.” A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A) . Section 1.167(1)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(1)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) re sults in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(1)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(1)1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a) .

Section 1.167(1)-(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(1)-(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(1)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in

which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

In Case, Commission B has reduced rate base by Taxpayer's ADIT account, as modified by the account which Taxpayer has designed to calculate the effects of the NOLC. Section 1.167(1)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Further, while that section provides no specific mandate on methods, it does provide that the Service has discretion to determine whether a particular method satisfies the normalization requirements. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the ADIT account, the reserve account for deferred taxes, reduces rate base, it is clear that the portion of an NOLC that is attributable to accelerated depreciation must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT). Thus, the order by Commission B is in accord with the normalization requirements. The “with or without” methodology employed by Taxpayer is specifically designed to ensure that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and preventsthe possibility of “flow through” of the benefits of accelerated depreciation to ratepayers. Under these facts, any method other than the “with and without” method would not provide the same level of certainty and therefore the use of any other methodology is inconsistent with the normalization rules.

Regarding the second issue, §1.167(1)-(h)(6)(i) provides, as noted above, that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Increasing Taxpayer's ADIT account by an amount representing those taxes that would have been deferred absent the NOLC increases the ADIT reserve account (which will then reduce rate base) beyond the permissible amount.

Regarding the third issue, reduction of Taxpayer's tax expense element of cost of service, we believe that such reduction would, in effect, flow through the tax benefits of accelerated depreciation deductions through to rate payers even though the Taxpayer has not yet realized such benefits. This would violate the normalization provisions.

We rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLC related account balance that is less than the amount attributable to accelerated depreciation computed on a “with or without” basis would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
2. The imputation of incremental ADIT on account of the reliability plant addition adjustments described above would be inconsistent with the requirements of § 168(i)(9) and §1.167(l)-1.
3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1.

This ruling is based on the representations submitted by Taxpayer and is only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman

Senior Technician Reviewer, Branch 6
(Passthroughs & Special Industries)

cc:

Department of the Treasury
Internal Revenue Service
Private Letter Ruling

PLR 201438003 - Section 167 - Depreciation

Internal Revenue Service
Department of the Treasury
Washington, DC 20224

Number: 201438003
Release Date: 9/19/2014
Index Number: 167.22-01
Third Party Communication:
Date of Communication:
Person To Contact:
Telephone Number:
Refer Reply To:
CC:PSI:B06
PLR-104157-14
Date:
June 12, 2014

LEGEND:

Taxpayer =
Parent =
State A =
Commission A =
Commission B =
Year A =
Year B =
Year C =
Year D =
Date A =
Date B =
Date C =
Date D =
Case =
Director =

Dear [redacted data]:

This letter responds to the request, dated January 24, 2014, and additional submission dated May 19, 2014, submitted on behalf of Taxpayer for a ruling on the application ofthe normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is a regulated, investor-owned public utility incorporated under the laws of State A primarily engaged in the business of supplying electricity in State A. Taxpayer is subject to the regulatory jurisdiction of Commission A and Commission B with respect to terms and conditions of service and particularly the rates it may charge for the provision of service. Taxpayer's rates are established on a rate of return basis.

Taxpayer is wholly owned by Parent, and Taxpayer is included in a consolidated federal income tax return of which Parent is the common parent. Taxpayer employs the accrual method of accounting and reports on a calendar year basis.

Taxpayer filed a rate case application on Date A (Case). In its filing, Taxpayer used as its starting point actual data from the historic test period, calendar Year A. It then projected data for Year B through Year C. Taxpayer updated, amended, and supplemented its data several times during the course of the proceedings. Rates in this proceeding were intended to, and did, go into effect for the period Date B through Date C.

In computing its income tax expense element of cost of service, the tax benefits attributable to accelerated depreciation were normalized and were not flowed thru to ratepayers.

In its rate case filing, Taxpayer anticipated that it would claim accelerated depreciation, including “bonus depreciation” on its tax returns to the extent that such depreciation was available in all years for which data was provided. Additionally, Taxpayer forecasted that it would incur a net operating loss (NOL) in Year D. Taxpayer anticipated that it had the capacity to carry back a portion of this NOL with the remainder producing a net operating loss carryover (NOLC) as of the end of Year D.

On its regulatory books of account, Taxpayer “normalizes” the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of accelerated tax depreciation) were claimed constitute “cost-free capital” to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries _a “deferred tax asset” and a “deferred tax expense” -that reflect that portion of those ‘tax losses' which, whiledue to accelerated depreciation, did not actually defer tax because of the existence of an NOLC.

In the setting of utility rates in State, a utility's rate base is offset by its ADIT balance. In its rate case filing and throughout the proceeding, Taxpayer maintained that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Thus, Taxpayer argued that the rate base should be reduced as of the end of Year D by its federal ADIT balance net of the deferred tax asset account attributable to the federal NOLC. It based this position on its determination that this net amount represented the true measure of federal income taxes deferred on account of its claiming accelerated tax depreciation deductions and, consequently, the actual quantity of “cost-free” capital available to it. It also asserted that the failure to reduce its rate base offset by the deferred tax asset attributableto the federal NOLC would be inconsistent with the normalization rules Testimony by another participant in Case argued against Taxpayer's proposed calculation of ADIT.

Commission A, in an order issued on Date D, held that it is inappropriate to includethe NOL in rate base for ratemaking purposes. Commission A further stated that it is the intent of the Commission that Taxpayer comply with the normalization method of accounting and tax normalization regulations. Commission noted that if Taxpayer laterobtains a ruling from the IRS which affirms Taxpayer's position, Taxpayer may file seeking an adjustment. Commission A also held that to the extent tax normalization rules require recording the NOL to rate base in the specified years, no rate of return is authorized.

Taxpayer requests that we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balance unreduced by the balance of its NOLC-related account balance would be inconsistent with (and, hence, violative of) the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
2. For purposes of Ruling 1 above, the use of a balance of Taxpayer's NOLCrelated account balance that is less than the amount attributable to accelerated depreciation computed on a “with and without” basis would be inconsistent with (and, hence, violative of) the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
3. Under the circumstances described above, the assignment of a zero rate of return to the balance of Taxpayer's NOLC-related account balance would be inconsistent with (and, hence, violative of) the requirements of §168(i)(9) and §1.167(l)-1.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such propertythat is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii) , if the amount allowable as a deduction under s ection 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i) , the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under section 168(i)(9)(B)(ii) , such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii) , unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a “normalization method of accounting.” A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A) . Section 1.167(l)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishingcost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(l)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) re sults in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(l)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect theamount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(l)1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciationused for determining the allowance for depreciation under section 167(a) .

Section 1.167(l)-1(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(l)-1(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(l)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reservefor deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

Regarding the first issue, §1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferredtaxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the ADIT account, the reserve account for deferred taxes, reduces rate base, it is clear that the portion of an NOLC that is attributable to accelerated depreciation must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT). Thus, the order by Commission A is not in accord with the normalization requirements.

Regarding the second issue, §1.167(l)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Section 1.167(l)1(h)(1)(iii) provides generally that, if, in respect of any year, the use of other than regulatory depreciation for tax purposes results in an NOLC carryover (or an increase in an NOLC which would not have arisen had the taxpayer claimed only regulatory depreciation for tax purposes), then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director. While that section provides no specific mandate on methods, it does provide that the Service has discretion to determine whether a particular method satisfies the normalization requirements. The “with or without” methodologyemployed by Taxpayer is specifically designed to ensure that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and prevents the possibility of “flow through” of the benefits of accelerated depreciation to ratepayers. Under these facts, any method other than the “with and without” method would not provide the same level of certainty and therefore the use of any other methodology is inconsistent with the normalization rules.

Regarding the third issue, assignment of a zero rate of return to the balance of Taxpayer's NOLC-related account balance would, in effect, flow the tax benefits of accelerated depreciation deductions through to rate payers. This would violate the normalization provisions.

We rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the fullamount of its ADIT account balance unreduced by the balance of its NOLC-related account balance would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
2. For purposes of Ruling 1 above, the use of a balanceof Taxpayer's NOLCrelated account balance that is less than the amount attributable to accelerated depreciation computed on a “with and without” basis would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1 of the Income Tax regulations.
3. Under the circumstances described above, the assignment of a zero rate of return to the balance of Taxpayer's NOLC-related account balance would be inconsistent with the requirements of §168(i)(9) and §1.167(l)-1.

This ruling is based on the representations submitted by Taxpayer and is only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning theFederal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorneyon file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman
Senior Technician Reviewer, Branch 6
(Passthroughs & Special Industries)

cc:

Department of the Treasury
Internal Revenue Service
Private Letter Ruling

PLR 201519021 - Section 167 - Depreciation

Internal Revenue Service
Department of the Treasury
Washington, DC 20224

Number: 201519021
Release Date: 5/8/2015
Index Number: 167.22-01

Third Party Communication: None
Date of Communication: Not Applicable
Person To Contact:
Telephone Number:
Refer Reply To: CC:PSI:B06 PLR-136851-14
Date: February 04, 2015

LEGEND:

Taxpayer =
Parent =
State A =
Commission =
Year A =
Year B =
Year C =
Year D =
Date A =
Date B =
Date C =
Date D =
Case =
Director =

Dear [redacted data]:

This letter responds to the request, dated October 1, 2014, submitted on behalf of Taxpayer for a ruling on the application of the normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is a regulated, investor-owned public utility incorporated under the laws of State A primarily engaged in the business of supplying natural gas service in State A. Taxpayer is subject to the regulatory jurisdiction of Commission with respect to terms and conditions of service and as to the rates it may charge for the provision of service. Taxpayer's rates are established on a cost of service basis.

Taxpayer is wholly owned by Parent, and Taxpayer is included in a consolidated federal income tax return of which Parent is the common parent. Taxpayer employs the accrual method of accounting and reports on a calendar year basis.

Taxpayer filed a rate case application on Date A (Case). In its filing, Taxpayer used as its starting point actual data from the historic test period, calendar Year A. It then projected data for Year B through Year D. Taxpayer updated, amended, and supplemented its data several times during the course of the proceedings. Rates in this proceeding were intended to, and did, go into effect for the period Date B through Date C.

In computing its income tax expense element of cost of service, the tax benefits attributable to accelerated depreciation were normalized and were not flowed thru to ratepayers.

In its rate case filing, Taxpayer anticipated that it would claim accelerated depreciation, including “bonus depreciation” on its tax returns to the extent that such depreciation was available in all years for which data was provided. Additionally, Taxpayer forecasted that it would incur a net operating loss (NOL) in each of Year B, Year C, and Year D. Taxpayer anticipated that it had the capacity to carry back a portion of this NOL with the remainder producing a net operating loss carryover (NOLC) as of the end of Year C and Year D, the beginning and end of the test period.

On its regulatory books of account, Taxpayer “normalizes” the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of accelerated tax depreciation) were claimed constitute “cost-free capital” to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries - a “deferred tax asset” and a “deferred tax expense” - that reflect that portion of those ‘tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of an NOLC.

In the setting of utility rates in State, a utility's rate base is offset by its ADIT balance. In its rate case filing and throughout the proceeding, Taxpayer maintained that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Thus, Taxpayer argued that the rate base should be reduced as of the end of Year D by its federal ADIT balance net of the deferred tax asset account attributable to the federal NOLC. It based this position on its determination that this net amount represented the true measure of federal income taxes deferred on account of its claiming accelerated tax depreciation deductions and, consequently, the actual quantity of “cost-free” capital available to it. It also asserted that the failure to reduce its rate base offset by the deferred tax asset attributable to the federal NOLC would be inconsistent with the normalization rules Testimony by another participant in Case argued against Taxpayer's proposed calculation of ADIT.

Commission, in an order issued on Date D, held that it is inappropriate to include the NOL in rate base for ratemaking purposes. Commission further stated that it is the intent of the Commission that Taxpayer comply with the normalization method of accounting and tax normalization regulations. Commission noted that if Taxpayer later obtains a ruling from the IRS which affirms Taxpayer's position, Taxpayer may file seeking an adjustment. Commission also held that to the extent tax normalization rules require including the NOL in rate base in the specified years, no rate of return is authorized.

Taxpayer requests that we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balance unreduced by the balance of its NOLC-related account balance would be inconsistent with (and, hence, violative of) the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

2. For purposes of Ruling 1 above, the use of a balance of Taxpayer's NOLC-related account balance that is less than the amount attributable to accelerated depreciation computed on a “with and without” basis would be inconsistent with (and, hence, violative of) the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

3. Under the circumstances described above, the assignment of a zero rate of return to the balance of Taxpayer's NOLC-related account balance would be inconsistent with (and, hence, violative of) the requirements of § 168(i)(9) and §1.167(l)-1.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii) , if the amount allowable as a deduction under s ection 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i) , the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under section 168(i)(9)(B)(ii) , such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii) , unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a “normalization method of accounting.” A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A) . Section 1.167(l)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(l)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) re sults in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(l)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(l)-1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a) .

Section 1.167(l)-1(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(l)-1(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(l)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

Regarding the first issue, § 1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the ADIT account, the reserve account for deferred taxes, reduces rate base, it is clear that the portion of an NOLC that is attributable to accelerated depreciation must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT). Thus, the order by Commission is not in accord with the normalization requirements.

Regarding the second issue, § 1.167(l)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Section 1.167(l)-1(h)(1)(iii) provides generally that, if, in respect of any year, the use of other than regulatory depreciation for tax purposes results in an NOLC carryover (or an increase in an NOLC which would not have arisen had the taxpayer claimed only regulatory depreciation for tax purposes), then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director. While that section provides no specific mandate on methods, it does provide that the Service has discretion to determine whether a particular method satisfies the normalization requirements. The “with or without” methodology employed by Taxpayer is specifically designed to ensure that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and prevents the possibility of “flow through” of the benefits of accelerated depreciation to ratepayers. Under these specific facts, any method other than the “with and without” method would not provide the same level of certainty and therefore the use of any other methodology is inconsistent with the normalization rules.

Regarding the third issue, assignment of a zero rate of return to the balance of Taxpayer's NOLC-related account balance would, in effect, flow the tax benefits of accelerated depreciation deductions through to rate payers. This would violate the normalization provisions.

We rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balance unreduced by the balance of its NOLC-related account balance would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

2. For purposes of Ruling 1 above, the use of a balance of Taxpayer's NOLC-related account balance that is less than the amount attributable to accelerated depreciation computed on a “with and without” basis would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

3. Under the circumstances described above, the assignment of a zero rate of return to the balance of Taxpayer's NOLC-related account balance would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1.

This ruling is based on the representations submitted by Taxpayer and is only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman
Senior Technician Reviewer, Branch 6
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Department of the Treasury
Internal Revenue Service
Private Letter Ruling

PLR 201548017 - Section 167 - Depreciation

Internal Revenue Service
Department of the Treasury
Washington, DC 20224

Number: 201548017
Release Date: 11/27/2015
Index Number: 167.22-01

Third Party Communication: None
Date of Communication: Not Applicable
Person To Contact:
Telephone Number:

Refer Reply To:
CC:PSI:B06 PLR-116998-15
Date:
August 19, 2015

LEGEND:

Taxpayer =
Parent =
State A =
State B =
Commission =
Year A =
Year B =
Date A =
Date B =
Case =
Director =

Dear [redacted data]:

This letter responds to the request, dated May 14, 2015, of Taxpayer for a ruling on the application of the normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is primarily engaged in the regulated distribution of natural gas in State A. It is incorporated in State B and is wholly owned by Parent. Taxpayer is subject to the regulatory jurisdiction of Commission with respect to terms and conditions of service and particularly the rates it may charge for the provision of service. Taxpayer's rates are established on a rate of return basis. Taxpayer takes accelerated depreciation, including “bonus depreciation” where available and, for each year beginning in Year A and ending in Year B, Taxpayer incurred net operating losses (NOL). On its regulatory books of account, Taxpayer “normalizes” the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of accelerated tax depreciation) were claimed constitute “cost-free capital” to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries - a “deferred tax asset” and a “deferred tax expense” - that reflect that portion of those ‘tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of an net operating loss carryover (NOLC). Taxpayer, for normalization purposes, calculates the portion of the NOLC attributable to accelerated depreciation using a “last dollars deducted” methodology, meaning that an NOLC is attributable to accelerated depreciation to the extent of the lesser of the accelerated depreciation or the NOLC.

Taxpayer filed a general rate case with Commission on Date A (Case). The test year used in the Case was the 12 month period ending on Date B. In computing its income tax expense element of cost of service, the tax benefits attributable to accelerated depreciation were normalized in accordance with Commission policy and were not flowed thru to ratepayers. In establishing the rate base on which Taxpayer was to be allowed to earn a return Commission offsets rate base by Taxpayer's ADIT balance. Taxpayer argued that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Testimony by various other participants in Case argued against Taxpayer's proposed calculation of ADIT. One proposal made to Commission was, if Commission allowed Taxpayer to reduce the ADIT balance as Taxpayer proposed, then an offsetting reduction should be made to Taxpayer's income tax expense element of service.

A Utility Law Judge upheld Taxpayer's position with respect to the NOLC-related ADIT and ordered Taxpayer to seek a ruling from the Internal Revenue Service on this matter. This request is in response to that order.

Taxpayer requests that we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the balance of its ADIT accounts unreduced by its NOLC-related deferred tax account would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

2. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLC-related account balance that is less than the amount attributable to accelerated depreciation computed on a “last dollars deducted” basis would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1.

3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)- 1.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(i)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under section 168(i)(9)(A)(ii) , if the amount allowable as a deduction under s ection 168 differs from the amount that-would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(i)(9)(A)(i) , the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) of the Code provides that one way the requirements of section 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under section 168(i)(9)(B)(ii) , such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(ii) , unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former section 167(l) of the Code generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a “normalization method of accounting.” A normalization method of accounting was defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A) . Section 1.167(1)-1(a)(1) of the Income Tax Regulations provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under section 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(1)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) re sults in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(1)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under section 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(1)-1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a) .

Section 1.167(1)-(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under section 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(1)-(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under section 1.167(1)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(1)-(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

Section 1.167(1)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Further, while that section provides no specific mandate on methods, it does provide that the Service has discretion to determine whether a particular method satisfies the normalization requirements. Section 1.167(1)- (h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the ADIT account, the reserve account for deferred taxes, reduces rate base, it is clear that the portion of an NOLC that is attributable to accelerated depreciation must be taken into account in calculating the amount of the reserve for deferred taxes (ADIT). Thus, the proposed order by the Utility Law Judge upholding Taxpayer's position that the NOLC-related deferred tax account must be included in the calculation of Taxpayer's ADIT is in accord with the normalization requirements. The “last dollars deducted” methodology employed by Taxpayer is specifically designed to ensure that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and prevents the possibility of “flow through” of the benefits of accelerated depreciation to ratepayers. Under these facts, any method other than the “last dollars deducted” method would not provide the same level of certainty and therefore the use of any other methodology is inconsistent with the normalization rules.

Regarding the third issue, reduction of Taxpayer's tax expense element of cost of service, we believe that such reduction would, in effect, flow through the tax benefits of accelerated depreciation deductions through to rate payers even though the Taxpayer has not yet realized such benefits. In addition, such adjustment would be made specifically to mitigate the effect of the normalization rules in the calculation of Taxpayer's NOLC- related ADIT. In general, taxpayers may not adopt any accounting treatment that directly or indirectly circumvents the normalization rules. See generally, § 1.46-6(b)(2)(ii) (In determining whether, or to what extent, the investment tax credit has been used to reduce cost of service, reference shall be made to any accounting treatment that affects cost of service); Rev. Proc 88-12 , 1988-1 C.B. 637, 638 (It is a violation of the normalization rules for taxpayers to adopt any accounting treatment that, directly or indirectly flows excess tax reserves to ratepayers prior to the time that the amounts in the vintage accounts reverse). This “offsetting reduction” would violate the normalization provisions.

Based on the representations submitted by Taxpayer, we rule as follows:

1. Under the circumstances described above, the reduction of Taxpayer's rate base by the balance of its ADIT accounts unreduced by its NOLC-related deferred tax account would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1 of the Income Tax regulations.

2. Under the circumstances described above, the reduction of Taxpayer's rate base by the full amount of its ADIT account balances offset by a portion of its NOLC-related account balance that is less than the amount attributable to accelerated depreciation computed on a “last dollars deducted” basis would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)-1.

3. Under the circumstances described above, any reduction in Taxpayer's tax expense element of cost of service to reflect the tax benefit of its NOLC would be inconsistent with the requirements of § 168(i)(9) and § 1.167(l)- 1.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Peter C. Friedman
Senior Technician Reviewer, Branch 6
Office of Associate Chief Counsel
(Passthroughs & Special Industries)

Department of the Treasury
Internal Revenue Service
Private Letter Ruling

PLR 201709008 - Section 167 - Depreciation

Internal Revenue Service
Department of the Treasury
Washington, DC 20224

Number: 201709008
Release Date: 3/3/2017
Index Number: 167.22-01

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
ID No.
Telephone Number:

Refer Reply To:
CC: PSI:B06 PLR-119381-16
Date:
December 02, 2016

LEGEND:

Taxpayer =
Parent =
State =
Commission A =
Commission B =
Date 1 =
Date 2 =
Date 3 =
Date 4 =
Date 5 =
Case =
Year 1 =
Year 2 =
Director =

Dear [redacted data]:

This letter responds to the request, dated June 15, 2016, submitted by Parent on behalf of Taxpayer for a ruling on the application of the normalization rules of the Internal Revenue Code to certain accounting and regulatory procedures, described below.

The representations set out in your letter follow.

Taxpayer is an integrated electric utility headquartered in State. Taxpayer is a wholly owned subsidiary of Parent and is included in Parent's consolidated federal income tax return. Taxpayer employs the accrual method of accounting and reports on a calendar year basis.

Taxpayer's business includes retail electric utility operations regulated within State by Commission A and Taxpayer is subject to the regulatory jurisdiction of Commission B with respect to terms and conditions of its wholesale electric transmission service and as to the rates it may charge for the provision of such services. Taxpayer's rates are established on a cost of service basis.

On Date 1, Taxpayer filed a rate case application (Case) with Commission B requesting authorization to change from charging stated rates for wholesale electric transmission service to a formula rate mechanism pursuant to which rates for wholesale transmission service are calculated annually in accordance with an approved formula. The proposed formula consisted of updating cost of service components, including investment in plant and operating expenses, based on information contained in Taxpayer's annual financial report filed with Commission B, as well as including projected transmission capital projects to be placed into service in the following year. The projections included are subject to true-up in the following year's formula rate.

In computing its income tax expense element of cost of service, the tax benefits attributable to accelerated depreciation were normalized and were not flowed thru to ratepayers.

In its rate case filing, Taxpayer anticipated that it would claim accelerated depreciation, including “bonus depreciation” on its tax returns to the extent that such depreciation was available. Taxpayer incurred a net operating loss (NOL) in each of Year 1 through Year 2 due to Taxpayer's claiming bonus depreciation, producing a net operating loss carryover (NOLC).

On its regulatory books of account, Taxpayer “normalizes” the differences between regulatory depreciation and tax depreciation. This means that, where accelerated depreciation reduces taxable income, the taxes that a taxpayer would have paid if regulatory depreciation (instead of accelerated tax depreciation) were claimed constitute “cost-free capital” to the taxpayer. A taxpayer that normalizes these differences, like Taxpayer, maintains a reserve account showing the amount of tax liability that is deferred as a result of the accelerated depreciation. This reserve is the accumulated deferred income tax (ADIT) account. Taxpayer maintains an ADIT account. In addition, Taxpayer maintains an offsetting series of entries - a “deferred tax asset” and a “deferred tax expense” - that reflect that portion of those ‘tax losses' which, while due to accelerated depreciation, did not actually defer tax because of the existence of a NOLC.

In the setting of utility rates by Commission B, a utility's rate base is offset by its ADIT balance. In its rate case filing, Taxpayer maintained that the ADIT balance should be reduced by the amounts that Taxpayer calculates did not actually defer tax due to the presence of the NOLC, as represented in the deferred tax asset account. Thus, Taxpayer argued that the rate base should be reduced by its federal ADIT balance net of the deferred tax asset account attributable to the federal NOLC. It based this position on its determination that this net amount represented the true measure of federal income taxes deferred on account of its claiming accelerated tax depreciation deductions and, consequently, the actual quantity of “cost-free” capital available to it. It also asserted that the failure to reduce its rate base offset by the deferred tax asset attributable to the federal NOLC would be inconsistent with the normalization rules.

On Date 2, Commission B issued an order accepting Taxpayer's revisions to its rates. On Date 3, new rates went into effect, subject to refund. Several intervenors submitted challenges to the rate case and on Date 4, Taxpayer and those intervenors entered into a Settlement Agreement, which was filed with Commission B. On Date 5, Commission B issued an order accepting the Settlement Agreement, which allows for the inclusion of the ADIT related to the NOLC asset in rate base.

Commission B further stated in the order that it is the intent of Commission B that Taxpayer comply with the normalization method of accounting and tax normalization regulations. The order also requires Taxpayer to seek a private letter ruling (PLR) from the Service regarding Taxpayer's treatment of the ADIT related to the NOLC asset. Commission B also noted that after the Service issues a PLR, Taxpayer shall adjust, to the extent necessary, its ratemaking treatment of the ADIT related to the NOLC asset prospectively from the date of the PLR.

Taxpayer requests that we rule as follows:

1. In order to avoid a violation of the normalization requirements of § 168(i)(9) and Treasury Regulation § 1.167(l)-1, it is necessary to include in rate base the Accumulated Deferred Income Tax (ADIT) asset resulting from the Net Operating Loss Carryforward (NOLC), given the inclusion in rate base of the full amount of the ADIT liability resulting from accelerated tax depreciation.

2. The exclusion from rate base of the entire ADIT asset resulting from the NOLC, or the inclusion in rate base of a

portion of that ADIT asset that is less than the amount attributable to accelerated tax depreciation, computed on a “with and without” basis, would violate the normalization requirements of § 168(i)(9) and § 1.167(l)-1.

Law and Analysis

Section 168(f)(2) of the Code provides that the depreciation deduction determined under § 168 shall not apply to any public utility property (within the meaning of § 168(i)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, § 168(i)(9)(A)(i) requires the taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is not shorter than, the method and period used to compute its depreciation expense for such purposes. Under § 168(i)(9)(A)(ii) , if the amount allowable as a deduction under § 168 differs from the amount that-would be allowable as a deduction under § 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under § 168(i)(9)(A)(i) , the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(i)(9)(B)(i) provides that one way the requirements of § 168(i)(9)(A) will not be satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with such requirements. Under § 168(i)(9)(B)(ii) , such inconsistent procedures and adjustments include the use of an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under § 168(i)(9)(A)(ii) , unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to the rate base.

Former § 167(l) generally provided that public utilities were entitled to use accelerated methods for depreciation if they used a “normalization method of accounting.” A normalization method of accounting was defined in former § 167(l)(3)(G) in a manner consistent with that found in § 168(i)(9)(A) . Section 1.167(l)-1(a)(1) provides that the normalization requirements for public utility property pertain only to the deferral of federal income tax liability resulting from the use of an accelerated method of depreciation for computing the allowance for depreciation under § 167 and the use of straight-line depreciation for computing tax expense and depreciation expense for purposes of establishing cost of services and for reflecting operating results in regulated books of account. These regulations do not pertain to other book-tax timing differences with respect to state income taxes, F.I.C.A. taxes, construction costs, or any other taxes and items.

Section 1.167(l)-1(h)(1)(i) provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(l)-1(h)(1)(iii) provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a subsection (1) method for purposes of determining the taxpayer's reasonable allowance under § 167(a) results in a net operating loss carryover to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under § 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Section 1.167(l)-1(h)(2)(i) provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that, with respect to any account, the aggregate amount allocable to deferred tax under § 167(1) shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation. That section also notes that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under § 1.167(l)-1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under § 167(a) .

Section 1.167(l)-1(h)(6)(i) provides that, notwithstanding the provisions of subparagraph (1) of that paragraph, a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes under § 167(l) which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking.

Section 1.167(l)-1(h)(6)(ii) provides that, for the purpose of determining the maximum amount of the reserve to be excluded from the rate base (or to be included as no-cost capital) under subdivision (i), above, if solely an historical period is used to determine depreciation for Federal income tax expense for ratemaking purposes, then the amount of the reserve account for that period is the amount of the reserve (determined under § 1.167(l)-1(h)(2)(i)) at the end of the historical period. If such determination is made by reference both to an historical portion and to a future portion of a period, the amount of the reserve account for the period is the amount of the reserve at the end of the historical portion of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during the future portion of the period.

Section 1.167(l)-1(h) requires that a utility must maintain a reserve reflecting the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes. Taxpayer has done so. Section 1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Section 56(a)(1)(D) provides that, with respect to public utility property the Secretary shall prescribe the requirements of a normalization method of accounting for that section.

Regarding the first issue, § 1.167(l)-1(h)(6)(i) provides that a taxpayer does not use a normalization method of regulated accounting if, for ratemaking purposes, the amount of the reserve for deferred taxes which is excluded from the base to which the taxpayer's rate of return is applied, or which is treated as no-cost capital in those rate cases in which the rate of return is based upon the cost of capital, exceeds the amount of such reserve for deferred taxes for the period used in determining the taxpayer's expense in computing cost of service in such ratemaking. Because the reserve account for deferred taxes (ADIT), reduces rate base, it is clear that the portion of the net operating loss carryover (NOLC) that is attributable to accelerated depreciation must be taken into account in calculating the amount of the ADIT account balance. Thus, the order by Commission to include in rate base the ADIT asset resulting from the NOLC, given the inclusion in rate base of the full amount of the ADIT liability resulting from accelerated tax depreciation is in accord with the normalization requirements.

Regarding the second issue, § 1.167(l)-1(h)(1)(iii) makes clear that the effects of an NOLC must be taken into account for normalization purposes. Section 1.167(l)- 1(h)(1)(iii) provides generally that, if, in respect of any year, the use of other than regulatory depreciation for tax purposes results in an NOLC carryover (or an increase in an NOLC which would not have arisen had the taxpayer claimed only regulatory depreciation for tax purposes), then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director. The “with or without” methodology employed by Taxpayer is specifically designed to ensure that the portion of the NOLC attributable to accelerated depreciation is correctly taken into account by maximizing the amount of the NOLC attributable to accelerated depreciation. This methodology provides certainty and prevents the possibility of “flow through” of the benefits of accelerated depreciation to ratepayers. Under these specific facts, any method other than the “with or without” method would not provide the same level of certainty and therefore the use of any other methodology in computing the portion of the ADIT asset attributable to accelerated depreciation is inconsistent with the normalization rules.

We rule as follows:

1. In order to avoid a violation of the normalization requirements of § 168(i)(9) and Treasury Regulation § 1.167(l)-1, it is necessary to include in rate base the Accumulated Deferred Income Tax (ADIT) asset resulting from the Net Operating Loss Carryforward (NOLC), given the inclusion in rate base of the full amount of the ADIT liability resulting from accelerated tax depreciation.

2. The exclusion from rate base of the entire ADIT asset resulting from the NOLC, or the inclusion in rate base of a portion of that ADIT asset that is less than the amount attributable to accelerated tax depreciation, computed on a “with

and without" basis, would violate the normalization requirements of § 168(i)(9) and § 1.167(l)-1.

This ruling is based on the representations submitted by Taxpayer and is only valid if those representations are accurate. The accuracy of these representations is subject to verification on audit.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the matters described above.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative. We are also sending a copy of this letter ruling to the Director.

Sincerely,

Patrick S. Kirwan
Chief, Branch 6
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Department of the Treasury
Internal Revenue Service
Private Letter Ruling

Private Letter Ruling 8818040

Section 168 -- ACRS Depreciation

UIL Number(s) 0168.08-02

Date: February 9, 1988

Refer Reply to: CC:C:2:6 - TR-31-06461-87

LEGEND:
Commission = * * *

Dear * * *

This is in response to your request for a letter ruling dated November 23, 1987, submitted on your behalf by your authorized representative. You have asked us to rule whether, to the extent that the use of the Accelerated Cost Recovery System (ACRS) in 1986 and prior years in determining the taxpayer'*s depreciation expense* for Federal income tax purposes contributed to a net operating loss (NOL) carryover from 1985 and 1986 to 1987, the taxpayer's use of the Federal statutory income tax rate in effect in 1987 for purposes of computing the deferred tax expense in its regulated books of account for the year 1987 will be consistent with the normalization requirements under sections 167 and 168 of the Internal Revenue Code and the Income Tax Regulations promulgated thereunder.

The taxpayer is incorporated under the laws of the State of * * * , has its principal executive offices at * * *, and files its returns with the Internal Revenue Service in * * * The taxpayer files its returns using a calendar year. The Internal Revenue Service (IRS) district office in * * * has examination jurisdiction over the taxpayer's return.

The taxpayer is a regulated public utility transmitting and distributing electric power. It has been represented under penalty of perjury that the Commission has been apprised of the taxpayer's ruling request and has no objection to the issuance of a ruling on the request.

As a public utility, the taxpayer is required to use the normalization method of accounting as a condition to its use of accelerated depreciation methods, including ACRS, for Federal income tax purposes. Accordingly, the taxpayer records deferred tax expense for financial statement and regulatory purposes pursuant to the provisions of sections 16 7 and 168 of the Code and the regulations thereunder. Hereinafter, the accelerated depreciation that the taxpayer is required to normalize is referred to as ACRS.

The amount of Federal income tax expense that the taxpayer recorded for financial statement purposes for 1986 and prior years was greater than the Federal income taxes actually paid. The additional recorded Federal income taxes (deferred taxes) resulted, in part, from a significant amount of property placed in service in 1985, which increased the depreciation deduction for Federal income tax purposes. However, the taxpayer did not realize the entire tax benefit from the ACRS depreciation claimed in 1985 and 1986 because the depreciation resulted in a NOL carryover to 1987. Therefore, in order to reflect the tax benefit of the NOL carryover to 1987, the taxpayer reduced its deferred Federal income tax expense and liability for 1985 and 1986 for financial reporting purposes. The net effect of this accounting in 1985 and 1986 was to record no deferred taxes applicable to the amount of ACRS depreciation that produced no current tax savings but rather caused or increased taxpayer's NOL carryover to 1987. The taxpayer only recorded deferred taxes applicable to ACRS when and to the extent that the use of ACRS produced an actual tax deferral.

The taxpayer will have taxable income in 1987 in excess of the NOL carryover from 1986. Consequently, the ACRS depreciation that was claimed in 1985 and 1986, but did not then produce a tax benefit, will produce a benefit in 1987 when the NOL is utilized. Accordingly, for 1987 the taxpayer proposes to record the deferred Federal income tax expense resulting from the use of the NOL carryover from 1986 at the rate of 39.95%, the effective income tax rate for 1987. This rate is lower than the 46 percent rate in effect during 1986 and the prior years when the ACRS depreciation was originally deducted on the taxpayer's Federal income tax return.

Section 168(f)(2) of the Code generally requires the use of the normalization method of accounting with respect to regulated public utility property in order for the public utility to be allowed to use ACRS depreciation for Federal income tax purposes.

Section 168(i)(9)(A) of the Code sets forth the normalization accounting requirements. This section provides that the taxpayer must, in computing its tax expense for purposes of establishing its cost of service for rate making purposes and reflecting operating results in its regulated books of account, use a method of depreciation with respect to such property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for such purposes. In addition, if the amount allowable as a deduction under this section with respect to such property differs from the amount that would be allowable as a deduction under section 167 (determined without regard to section 167(1)) using the method (including the period, first and last year convention, and salvage value) used to compute regulated tax expense under clause (i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 1.167(1)-1(h)(1)(i) of the regulations provides that a taxpayer uses a normalization method of regulated accounting if the taxpayer makes adjustments to a reserve to reflect the total amount of the deferral of Federal income tax liability resulting from the use with respect to all of its public utility property of such different methods of depreciation.

Section 1.167(1)-1(h)(1)(iii) of the regulations provides that, except as provided in this subparagraph, the amount of Federal income tax liability deferred as a result of the use of different methods of depreciation under subdivision (i) of this subparagraph is the excess (computed without regard to credits) of the amount the tax liability would have been had a subsection (1) method been used over the amount of the actual tax liability. Such amount shall be taken into account for the taxable year in which such different methods of depreciation are used. If, however, in respect of any taxable year the use of a method of depreciation other than a section (1) method for purposes of determining the taxpayer's reasonable allowance under section 167(a) results in a net operating loss carryover (as determined under s ection 172) to a year succeeding such taxable year which would not have arisen (or an increase in such carryover which would not have arisen) had the taxpayer determined his reasonable allowance under section 167(a) using a subsection (1) method, then the amount and time of the deferral of tax liability shall be taken into account in such appropriate time and manner as is satisfactory to the district director.

Under the regulations, the amount of deferred taxes is computed using a “with and without” methodology. (That is, deferred taxes equal the excess of taxes due without ACRS over the taxes due with ACRS). Where taxes computed with ACRS produce a NOL carryover, the amount and time of the deferral is left to the discretion of the Internal Revenue Service.

The taxpayer maintains that where the computation utilizing ACRS results in a NOL, the deferral is appropriately made at the time the taxpayer realizes an actual tax benefit from the use of ACRS. The taxpayer will realize the benefit of the NOL attributable to the accelerated depreciation in 1987. Therefore, the taxpayer should record the deferred taxes in 1987. We conclude that this approach is consistent with the normalization requirements under sections 167 and 168 of the Code.

With respect to the amount of the deferral, the Federal statutory income tax rates in effect in 1987 for calendar year taxpayers, pursuant to the Tax Reform Act of 1986, can reasonably be combined to result in an effective rate of 39.95 percent. See section 3 of Rev. Proc. 88-12 , 1988-8 I.R.B. ___. This is lower than the 46 percent rate in effect when the NOL was incurred. Because the deferred taxes are being recorded in 1987, it is appropriate to utilize the effective tax rate for that year. We note that this approach is consistent with generally accepted accounting principles as set forth in APB Opinion No. 11, Accounting for Income Taxes. Regarding NOL's, the APB Opinion provides that if loss carryforwards are realized in periods subsequent to the loss period, the amounts eliminated from the deferred tax credit account should be reinstated at the then current tax rates. We conclude that the taxpayer's methodology satisfies the normalization requirements of sections 167 and 168 of the Code.

Accordingly, to the extent that the use of ACRS depreciation in 1986 and prior years in determining depreciation expense for Federal income tax purposes contributed to a NOL carryover from 1986 to 1987, the taxpayer's use of the effective tax rate for 1987 (39.95 percent for calendar year taxpayers) in computing the deferred Federal income tax expense on its regulated books of account for the year 1987 will be consistent with the normalization requirements of sections 167 and 168 of the Code and the regulations thereunder.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this private letter ruling is being sent to your authorized representative in accordance with the power of attorney on file with this office.

A copy of this ruling letter should be filed with the income tax return for the taxable year or years in which the transaction covered by this ruling is consummated.

Sincerely yours,

James F. Malloy
Director, Corporation
Tax Division

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY	)	
	)	
CORPORATION FOR AN ADJUSTMENT	)	**Case No. 2017-00349**
	)	
OF RATES AND TARIFF MODIFICATIONS	)	

REBUTTAL TESTIMONY OF LAURA K. GILLHAM

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Laura K. Gillham. My business address is 5430 LBJ Freeway, Suite 600, Dallas, Texas 75240.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Director of Accounting Services for Atmos Energy Corporation (hereinafter "Atmos Energy" or the "Company").

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AND EXHIBITS IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to rebut the testimony of AG witness Mr. Lane Kollen regarding his recommendation to modify the Division 002 Shared Services Unit (SSU) and Division 091 Kentucky/Mid-States (DGO) composite factors, which affect rate base and operating expense allocations to the Kentucky rate division.

Q. PLEASE SUMMARIZE MR. KOLLEN'S RECOMMENDATION REGARDING CHANGES TO SSU AND DGO ALLOCATION FACTORS.

A. Mr. Kollen proposes to eliminate operation and maintenance expenses and number of customers from the Division 002 SSU and Division 091 DGO composite factor and replace them with total operating expenses (O&M, Taxes-Other, and Depreciation Expense). The resulting allocation factor would be equally weighted between gross direct property plant and equipment and total operating expenses.[1]

Q. HOW DID THE COMPANY DETERMINE THE COMPOSITE FACTORS USED IN THIS CASE?

A. The Company describes how the composite factors are determined in the Cost Allocation Manual (CAM) that was filed as exhibit LKG-1 attached to my pre-filed testimony.

Q. PLEASE DESCRIBE THE HISTORY OF THE CAM.

A. Although the Company had been utilizing the allocation methodology described in the CAM for many years prior, the CAM was formally documented in response to 807 K.A.R. 5 :080, and was first filed with the Commission in April of 2001. Atmos Energy is required to update the CAM each year. The Company has used the CAM to document its allocation processes in the regular course of business since it was first filed with the Commission.

Q. WHAT ARE THE FUNCTIONS OF SHARED SERVICES (SSU) AND THE KENTUCKY MID-STATES DIVISION GENERAL OFFICE (DGO)?

A. The Company's Shared Services Unit (SSU) consists of functions that serve multiple rate divisions. These services include departments such as legal, billing, call center, accounting, information technology, human resources, gas supply, and rates administration, among others. SSU is comprised of SSU - General Office (Division 002) and SSU - Customer Support. SSU - General Office includes all other functions not encompassed by SSU - Customer Support. SSU - Customer Support includes billing, customer call center functions and customer support related services. The Kentucky Mid-States General Office (DGO) is an administrative office that is located outside of SSU which serve as the base of operations and central office for the

[1] Kollen Direct at 65.

operating division that encompasses the Company's operations in Kentucky, Tennessee and Virginia.

Q. HOW ARE SSU AND DGO EXPENSES ALLOCATED TO KENTUCKY?

A. SSU - General Office department expenses are allocated by department to the applicable operating divisions using the Composite Factor. The DGO's charges are allocated to the rate divisions using the composite rate for each rate division. Costs are allocated to operating divisions based on a composite factor applied to the SSU departments.

The Composite Factor is the simple average of three percentages:

(1) The average percentage of gross direct property plant and equipment in each operating division unit as a percentage of the total direct property plant and equipment in all of the operating divisions.

(2) The average number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions.

(3) The total direct O&M expense in each operating division as a percentage of the total direct O&M expense in all operating divisions.

SSU - Customer Service department expenses are allocated by cost center to the applicable operating division based on the average number of customers in each operating division as a percentage of the total number of customers in all of the operating divisions. The DGO charges are allocated to rate divisions based on the number of customers in the rate division.

DGO department expenses, which are incurred directly in the DGO, are allocated to the rate divisions utilizing the composite rate for each rate division. The calculations for factors used in this filing for both SSU and DGO were provided in the Company's response to Staff Set 1, Item 71.

Q. HAS THE COMPANY APPLIED ITS ALLOCATION METHODOLOGY CONSISTENTLY, OBJECTIVELY, AND IN ACCORDANCE WITH ITS COST ALLOCATION MANUAL SINCE THE INITIAL INCEPTION OF THE COST ALLOCATION MANUAL, INCLUDING IN CASE NO. 2013-00148 THAT WAS HEARD BEFORE THE KENTUCKY PUBLIC SERICE COMMISSION?

A. Yes. Although the percentages change each year with the input of the latest available fiscal year information, the methodology underlying calculation of the composite factors is the same, as it has been even before developing the CAM in April 2001.

Q. DO YOU AGREE WITH MR. KOLLEN THAT THE COMPOSITE FACTORS USED FOR DIVISION 002 AND DIVISION 091 ARE NOT REASONABLE?[2]

A. No. Atmos Energy's allocation methodology is reasonable and reflective of cost causation. It is applied in all of the jurisdictions in which Atmos Energy operates in a manner that is uniform and consistent and ensures full and fair allocation of Division 002 and Division 091 costs. The cost allocations that result from the composite factors yield fairly and justly apportioned costs in compliance with KRS 278.010 (20).

Q. WHAT ARE MR. KOLLEN'S RECOMMENDATIONS FOR COMPOSITE FACTORS?

A. He agrees that the gross direct property plant and equipment is reasonable. He claims that the number of customers is not reasonable because there is a separate customer allocation factor that is used for customer costs, particularly the costs from Division 012 Call Center customer support.[3] He also claims that total direct O&M is not

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[2] Kollen Direct at 64.
[3] Kollen Direct at 64-65

reasonable because it is not a comprehensive measure of all expenses that are managed by Division 002.[4]

Q. DO YOU AGREE WITH HIS RECOMMENDATION THAT THE NUMBER OF CUSTOMERS IS NOT REASONABLE?

A. No. It is important to the Company to develop a reasonable correlation between cost causation and allocation of common corporate costs. Servicing our customer needs requires significant management effort. As alluded to above, division 002 includes all other functions not encompassed by division 012. These costs include, among others, senior management costs. The need for and the level of services provided by the Utility is principally driven by the number of customers serviced by a particular operating division. Inclusion of this factor in the composite factor ensures that common corporate costs are being assigned in reasonable relation to the divisions that generate those costs by providing the necessary functions required to service customers.

Q. DO YOU AGREE WITH HIS RECOMMENDATION THAT TOTAL DIRECT O&M IS NOT REASONABLE?

A. No. Direct O&M is a better metric than total operating expenses as it reflects the level of service provided. In the Company's extensive experience in providing local gas distribution utility service in multiple jurisdictions, the relative percentage of O&M direct expense appropriately reflects cost causation attributable to a particular division. That is, in allocating common costs for Atmos Energy, the level of O&M direct expense directly attributable to a particular division is one of the principle drivers of the level of services provided by rate division 002 and rate division 091. It has a high, and therefore reasonable, correlation with a division's use of common SSU and DGO services and should be utilized as a component of the 3 factor composite factor.

[4] *Id*.

Q. WHY IS USING TOTAL OPERATING EXPENSES INAPPROPRIATE?

A. Using total operating expenses as a component of the composite factor produces circular results. As an example, suppose another division of the Company had total operating expense decreases, but the level of service provided to them remains the same. That would mean that the costs to the other divisions' operations would be reduced via the allocation process in the following year, which would again be incorporated into the allocation process making that division's operations less profitable. At no time during these hypothetical years would the costs have been representative of the actual level of service.

Q. WHY IS DIRECT O&M A BETTER INDICATOR OF COST CAUSATION THAN TOTAL OPERATING EXPENSES?

A. Direct O&M represents a collection of expenditure types such as labor, benefits, utilities, telecom and IT expenses that are directly related to the services provided to the operating divisions. In other words, it is the people, as well as their related benefits and employee driven costs, that provide the services to the operating divisions and whose costs must be allocated. Depreciation expense is directly related to and therefore redundant to gross plant, which Mr. Kollen agrees is already one of the reasonable factors that should be included in a composite factor. Depending on the rate structure of any particular jurisdiction relative to another, Other Taxes can easily distort the composite allocation. Texas, for example, requires regulated utilities to record revenue related taxes (such as franchise fees) as revenue and offsetting Other Tax expense. Including them in the composite factor calculation distorts the allocation away from jurisdictions that do not record such items on the income statement. In the cases of depreciation expense and Other Tax expense, to the extent they are higher or lower for a particular jurisdiction, they are not drivers of service costs. In both cases, they are managed by shared resources (primarily people) whose costs are accounted for as O&M and are properly allocated using the Company's existing allocation methodology.

Q. HAS MR. KOLLEN EVER TESTIFIED IN RELATION TO THE COMPANY'S CAM AND ITS COMPOSITE ALLOCATION FACTORS?

A. Yes, before the Georgia Public Service Commission in Docket No. 20298-U, Mr. Kollen testified that the Mid-States Operating division (Div 091) should use the composite factor to allocate costs to the states it serves.[5] Again before the Georgia Public Service Commission in Docket No. 30442, Mr. Kollen's testimony concluded that the division costs were allocated in accordance with the Atmos Energy CAM and the Georgia Commission precedent.[6] In neither proceeding did Mr. Kollen recommend a change to the Company's allocation methodology.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[5] Direct Testimony of Victoria L. Taylor and Lane Kollen, Docket No. 20298-U, at 18.
[6] Direct Testimony and Exhibits of Alicia McBride and Lane Kollen, Docket No. 30442, at 13.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF	)	
RATE APPLICATION OF	)	Case No. 2017-00349
ATMOS ENERGY CORPORATION	)	

CERTIFICATE AND AFFIDAVIT

The Affiant, Laura K. Gillham, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared rebuttal testimony of this affiant in Case No. 2017-00349, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared rebuttal testimony.

Laura K. Gillham

STATE OF Texas

COUNTY OF Dallas

SUBSCRIBED AND SWORN to before me by Laura K. Gillham on this the 27th day of February, 2018.

Wendy Michelle Brooks
Notary Public, State of Texas
My Commission Expires
March 31, 2018

Wendy Michelle Brooks

Notary Public

My Commission Expires: 3/31/2018

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY	**)**	
	)	
CORPORATION FOR AN ADJUSTMENT	**)**	**Case No. 2017-00349**
	)	
OF RATES AND TARIFF MODIFICATIONS	**)**	

REBUTTAL TESTIMONY OF GREGORY W. SMITH

I. POSITION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gregory W. Smith, P.E.. My business address is 810 Crescent Centre Drive # 600, Franklin, Tennessee, 37067.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Manager of Engineering Services for Atmos Energy Corporation's Kentucky-Mid-States Division (hereinafter "Atmos Energy" or the "Company").

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. My current responsibilities include Supervision of the Engineering and Project Management in the states of Tennessee and Virginia as well as the GIS department for the Kentucky MidStates division of Atmos Energy. My responsibilities include our GIS Department, Engineering, Contracting, and Project Inspection. These departments are responsible for execution of our Pipeline Integrity Plan, Annual DOT filings, Contracting, and Project Inspection for planned system growth, improvement, and replacement projects. Specific to this matter, I was the Program Manager for the Kentucky PRP after the program's approval from 2011 thru 2015.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Science degree in Mechanical Engineering from Texas Tech University in 1996. I am a Registered Professional Engineer in the states of Texas and Kentucky. I have been employed by Atmos Energy Corporation for 21 years. During my time at Atmos Energy Corporation I have held several different engineering positions (1996-2002) in the West Texas and Colorado-Kansas Divisions, as an Operations Supervisor (2002-2006) in the MidStates Division, Manager of Strategic Sourcing and Small Business Liaison Officer (2006-2011) in the Dallas Corporate Office, and Operations/Engineering Manager over KY PRP (2011-2015) in the MidStates Division - before moving to my current role as Manager of Engineering Services.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?

A. Yes, I have had previous membership with several different industry associations including AGA, SGA and the Kentucky Gas Association. Currently I serve as a member of the Board of Directors of the Tennessee Gas Association.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION OR OTHER REGULATORY ENTITIES?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to rebut statements made by the Attorney General's Witness, Mr. Lane Kollen, about the performance of the Company's Pipeline Replacement Program ("PRP") and explain why, from a safety and reliability perspective, continuing the PRP is in the public interest.

Q. DO YOU AGREE WITH MR. KOLLEN'S CHARACTERIZATION OF THE PRP?

A. No. Mr. Kollen described the PRP as "poor ratemaking policy" and as a "pilot program for the ARM." He also stated that the results of the PRP were "not good." Mr. Martin addresses the ratemaking policy behind the PRP and differentiates the PRP from the ARM in his rebuttal testimony. The purpose of my testimony is to describe how the results of the PRP have been beneficial to Atmos Energy customers and the communities we serve.

Q. HAS THE COMPANY'S PRP FUNCTIONED WELL?

A. Yes. The Company's most fundamental objective is to provide safe and reliable gas service to all customers. The PRP has enabled the Company to expedite the replacement of older and no longer industry-standard materials with safer, modern pipe installed to current specifications. Additionally, these pipe replacement projects also include the relocation of regulator stations away from high-traffic areas, installation of key valves in order to better isolate or control gas flow in case of emergency, installation of remote monitoring of pressure and gas flow at critical stations to be monitored by Supervisory Control and Data Acquisition (SCADA), installation of test stations to ensure proper locating, and relocation of gas piping from behind rear easements and from under streets/highways where they are no longer accessible. Replacement of individual service lines also includes recently mandated safety measures such as excess flow valves and service isolation valves. Replacement of risers, meters, regulators, and relocation of meter sets away from driveways and from underneath carports also eliminates risk and allows for quicker/faster response when accidents do occur.

Q. YOU INDICATED THAT THERE IS STILL PIPELINE IN KENTUCKY THAT IS SLATED FOR REPLACEMENT UNDER THE PRP. IS ATMOS ENERGY'S PIPELINE SYSTEM IN KENTUCKY IN JEOPARDY?

A. No. Atmos Energy's natural gas pipeline system in Kentucky is not in imminent danger of catastrophic failure. However, as steel pipe ages, the likelihood of pipeline failure increases, also increasing the likelihood of an occurrence of pipeline failure that rises to the level of catastrophic. For this reason, delaying pipe replacement until there is an imminent threat to public safety is not a good policy. Based on the first 7 years of the pipe replacement program, we have seen a dramatic reduction in the number of underground leaks in our system from a peak of 1,354 at the early stages of our replacement program to 489 in January of this year. This trend is directly attributable to the amount of aging infrastructure we have removed from our gas systems in spite of increased frequency of leak survey and use of more sensitive leak detection equipment by our technicians.

Q. IS THE ATMOS ENERGY PIPELINE SYSTEM IN KENTUCKY SAFE?

A. Yes. Atmos Energy is very proud that, overall, our system has proven to be safe and reliable. While no one can guarantee there will never be an incident, we can and do monitor and inspect our system, identify risks, and remediate issues where they arise. However, past success is not a guarantee of future safety and I believe that accelerated replacement of this infrastructure is in the public interest. The Company has accelerated its work with pipe replacement in the state of Kentucky. This investment demonstrates our desire to ensure that our rate of replacement exceeds the rate of material failure.

Q. IF THE ATMOS ENERGY PIPELINE SYSTEM IN KENTUCKY IS SAFE AND NOT IN JEOPARDY, THEN WOULD TERMINATION OF THE PRP IMPACT THE SAFETY AND RELIABILITY OF THE ATMOS ENERGY PIPELINE SYSTEM IN KENTUCKY?

A. Atmos Energy will spend the capital necessary to address immediate safety concerns and ensure that identified risks are mitigated. However, the Commission's approval of recovery mechanisms, like the PRP, facilitate a regulatory environment that encourages proactive investment. Termination or suspension of the PRP would result in miles of bare steel pipe which was originally installed in the 1930's - 1940's being left in the ground longer.

Q. HAVE OTHER JURISDICTIONS IN WHICH ATMOS ENERGY OPERATES ALSO CREATED SUCH A REGUALTORY ENVIRONMENT?

A. Yes. Colorado, Louisiana, Mississippi, Tennessee, Texas and Virginia have also enacted similar policy measures to mitigate risks by permitting recovery of infrastructure investment on an annual basis.

Q. COULD THE COMPANY DO AS MR. KOLLEN SUGGESTS ON PAGE 74 OF HIS TESTIMONY AND RECOVER THE COSTS OF PIPELINE REPLACEMENT THROUGH GENERAL RATE CASES?

A. Mr. Waller/Mr. Martin speak more to the impact of recovering the costs through general rate cases. From an operational perspective, the Company would continue to operate its system in a safe manner, abiding by federal regulations, regardless of whether the PRP existed or not. Just because the PRP does not exist does not change the need to continue the level of infrastructure replacement in Kentucky. My understanding is that the Company would be able to recover its prudently incurred costs of complying with existing regulations through general rate cases.

Q. ARE THERE DIRECTIVES THAT CLEARLY ARTICULATE THE POSITION OF REGULATORS AS THEY RELATE TO ACCELERATED PIPE REPLACEMENT AND RATE MECHANISMS SUCH AS THE PRP?

A. Yes. Mr. Martin discusses some of these directives in his rebuttal testimony. The directives correctly reinforce the shift in focus by the industry towards safety and modernization of infrastructure. Atmos Energy shares in PHMSA's commitment to do everything possible to achieve a goal of zero pipeline incidents.

Q. ON PAGES 72-73 OF HIS TESTIMONY, MR. KOLLEN CALCUALTES THAT THE PRP HAS ONLY ACHIEVED MINIMAL CUMULATIVE O&M EXPENSE SAVINGS WHEN COMPARED WITH ITS OVERALL COSTS. IN YOUR OPINION, IS THIS THE CORRECT WAY TO EVALUATE THE EFFECTIVNESS OF THE PRP?

A. No. The PRP does far more than achieve O&M expense savings. When Atmos Energy individually determines a system issue, the reporting and data gathering required to identify as a 'system risk' takes time and coordination between our operations, engineering, and compliance departments. Many times the single issue has already been repaired or replaced as a local occurrence before we identify as a company 'system risk'. Once identified, it may take additional time to monitor, evaluate exposure in other areas, and then prioritize the capital cost for budgeting. The PRP program, as this Commission previously considered and approved, allows us to systematically move from one community to another performing a complete replacement of aging infrastructure while balancing the impact to the local community, utilities, city commissions, and trades. These same factors continue to illustrate that the PRP is in the public interest.

Q. ON PAGES 70-71 OF HIS TESTIMONY, MR. KOLLEN SAYS THAT THE COMPANY'S PRP EXPENSES HAVE GREATLY EXCEEDED ITS INITIAL PROJECTIONS. IS THAT TRUE?

A. Yes. The Company's initial application in Case No. 2009-00354 sought to replace 250 miles of bare steel over a fifteen year period. The Company met with the Commission Staff on July 25, 2011 and let them know of the discovery of an additional 100 miles of bare steel that would be added to the program. The original estimate of $124 million provided for the filing of the PRP program based on Atmos Energy construction procedures, relatively small comparative projects, assumptions concerning city ordinances, and industry regulation that are now over 10 years old. At the time that those estimates were made, the scope of the PRP was more limited than it is today. Additionally, there were cost estimates made within this original estimate that have proved to be incorrect in order to manage a program of this size. Specifically, it appears that the original estimates did not take into account the cost of service line and meter set relocations/replacements, the cost of street remediation including sidewalks, curb and gutters, and city-required handicap ramps, the cost of pre/post directional boring inspection for crossbores, the staffing and mapping costs associated with the continuous execution of pipe replacement projects, the underestimation of the construction cost to replace larger diameter high-pressure distribution and transmission lines, and the cost to secure easements and ROW for said projects.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF	)	
RATE APPLICATION OF	)	Case No. 2017-00349
ATMOS ENERGY CORPORATION	)	

CERTIFICATE AND AFFIDAVIT

The Affiant, Gregory W. Smith, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared rebuttal testimony of this affiant in Case No. 2017-00349, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared rebuttal testimony.

Gregory W. Smith

STATE OF Tennessee
COUNTY OF Williamson

SUBSCRIBED AND SWORN to before me by Gregory W. Smith on this the 20th day of February, 2018.

Pamela Pleasant
Notary Public
My Commission Expires: March 3, 2020

PAMELA PLEASANT STATE OF TENNESSEE NOTARY PUBLIC DAVIDSON COUNTY, TENN.

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY	)	
	)	
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JAMES H. VANDER WEIDE, PH.D.

RATE OF RETURN

ATMOS ENERGY CORPORATION
RATE OF RETURN

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I. WITNESS IDENTIFICATION AND PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. My name is James H. Vander Weide. My business address is 3606 Stoneybrook Drive, Durham, North Carolina.

Q. ARE YOU THE SAME JAMES H. VANDER WEIDE WHO PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I have been asked by Atmos Energy Corporation ("Atmos Energy" or "the Company") to review the testimony of Richard A. Baudino and to respond to his recommended rate of return on equity for Atmos Energy. Mr. Baudino's testimony is presented on behalf of the Office of the Attorney General.

Q. WHAT IS MR. BAUDINO'S RECOMMENDED RATE OF RETURN ON EQUITY FOR ATMOS ENERGY?

A. Mr. Baudino recommends a rate of return on equity equal to 8.8 percent for Atmos Energy.

Q. HOW DOES MR. BAUDINO ARRIVE AT HIS RECOMMENDED 8.8 PERCENT RATE OF RETURN ON EQUITY?

A. Mr. Baudino arrives at his recommended 8.8 percent rate of return on equity by applying the Discounted Cash Flow ("DCF") model to a proxy group of natural gas distribution companies. Although he also applies the Capital Asset Pricing Model ("CAPM") to his proxy company group, he does not rely on his CAPM results to arrive at his recommended 8.8 percent cost of equity for Atmos Energy (Baudino at 13).

Q. IN YOUR DIRECT TESTIMONY, YOU ESTIMATE ATMOS ENERGY'S COST OF EQUITY BY APPLYING THE DCF MODEL, THE CAPM, AND RISK PREMIUM MODELS TO A PROXY GROUP OF NATURAL GAS UTILITIES. DOES MR. BAUDINO PROVIDE A RISK PREMIUM ESTIMATE OF ATMOS ENERGY'S COST OF EQUITY?

A. No, he does not.

Q. WHAT AREAS OF MR. BAUDINO'S TESTIMONY WILL YOU ADDRESS IN YOUR REBUTTAL TESTIMONY?

A. I will address Mr. Baudino's: (1) DCF analysis; (2) CAPM analysis; and (3) comments on my direct testimony.

Q. IS THERE ANYTHING IN MR. BAUDINO'S TESTIMONY THAT CAUSES YOU TO CHANGE YOUR RECOMMENDED COST OF EQUITY FOR ATMOS?

A. No.

II. MR. BAUDINO'S DISCOUNTED CASH FLOW ANALYSIS

Q. WHAT DCF MODEL DOES MR. BAUDINO USE TO ESTIMATE ATMOS ENERGY'S COST OF EQUITY?

A. Mr. Baudino uses an annual DCF model of the form, $k = [D_0 (1+.5g)/P_0] + g$, where k is the cost of equity, D_0 is the most recent annualized dividend per share, P_0 is the current stock price, and g is the expected future annual growth rate in dividends and earnings per share.

Q. WHAT ARE THE BASIC ASSUMPTIONS OF MR. BAUDINO'S ANNUAL DCF MODEL?

A. Mr. Baudino's annual DCF model is based on the assumptions that: (1) a company's stock price is equal to the present value of the future dividends investors expect to receive from their investment in the company; (2) dividends are paid annually at the end of each year; (3) dividends, earnings, and book values are expected to grow at the same constant rate forever; and (4) the first annual dividend is received one year from the date of the analysis.

Q. DO YOU AGREE WITH MR. BAUDINO'S USE OF AN ANNUAL DCF MODEL TO ESTIMATE ATMOS ENERGY'S COST OF EQUITY?

A. No. The annual DCF model is based on the assumption that companies pay dividends only at the end of each year. Because Mr. Baudino's proxy companies pay dividends quarterly, Mr. Baudino should have used the quarterly DCF model to estimate Atmos Energy's cost of equity.

Q. WHY IS IT INCORRECT TO USE AN ANNUAL DCF MODEL TO ESTIMATE THE COST OF EQUITY FOR COMPANIES THAT PAY DIVIDENDS QUARTERLY?

A. It is incorrect to apply an annual DCF model to companies that pay dividends quarterly because: (1) the DCF model is based on the assumption that a company's stock price is equal to the present value of the expected future dividends associated with investing in the company's stock; and (2) the annual DCF model is not a correct equation for the present value of expected future dividends when dividends are paid quarterly. [See Vander Weide Direct, Appendix 2]

Q. RECOGNIZING YOUR DISAGREEMENT WITH MR. BAUDINO'S USE OF AN ANNUAL DCF MODEL, DID MR. BAUDINO APPLY THE ANNUAL DCF MODEL CORRECTLY?

A. No. Mr. Baudino's annual DCF model is based on the assumption that dividends will grow at the same constant rate forever. Under the assumption that dividends will grow at the same constant rate forever, the cost of equity is given by the equation, $k = [D_0 (1 + g) / P_0] + g$, where D_0 is the current annualized dividend, P_0 is the stock price, and g is the expected constant annual growth rate. [See Vander Weide Direct Appendix 2] Thus, the correct first period dividend in the annual DCF model is the current annualized dividend multiplied by the factor, (1 + growth rate). Instead, Mr. Baudino uses the current annualized dividend multiplied by the factor (1 + 0.5 times growth rate) as the first period dividend in his DCF model. This incorrect procedure, apart from other errors in his methods, causes him to underestimate Atmos Energy's cost of equity.

Q. HOW DOES MR. BAUDINO ESTIMATE THE EXPECTED FUTURE GROWTH COMPONENT OF HIS DCF MODEL?

A. Mr. Baudino estimates the expected growth component of his DCF model by calculating the mean and median values of four sources of forecasted growth for each proxy company, including the Value Line forecasted dividends per share ("DPS") growth, Value Line forecasted earnings per share ("EPS") growth, and forecasted earnings growth as reported by Zack's and Yahoo Finance (Baudino at 20).

Q. DO YOU AGREE WITH MR. BAUDINO'S USE OF VALUE LINE'S FORECASTED DIVIDEND PER SHARE GROWTH RATE TO ESTIMATE THE GROWTH COMPONENT OF THE DCF MODEL?

A. No. Dividend growth forecasts are, in general, less accurate indicators of long-run future growth than are earnings growth forecasts. When analysts forecast dividend growth, they first must estimate earnings growth and then forecast the percentage of earnings that will be paid out as dividends. Since the percentage of earnings that are paid out as dividends is uncertain, there is an additional element of error present in dividend growth forecasts than is present in earnings growth forecasts.

In addition, my studies indicate that analysts' EPS growth forecasts are more highly correlated with stock prices than analysts' DPS growth forecasts. This result is important because it supports the conclusion that investors use analysts' EPS growth forecasts as the estimate of future growth when making stock buy and sell decisions.

Q. DOES MR. BAUDINO INCLUDE AN ALLOWANCE FOR THE FLOTATION COSTS THAT ATMOS ENERGY INCURS WHEN IT ISSUES NEW EQUITY?

A. No. (Baudino at 34)

Q. WHY DOES MR. BAUDINO EXCLUDE A FLOTATION COST ALLOWANCE IN HIS DCF ANALYSIS?

A. Mr. Baudino argues that it is likely that "flotation costs are already accounted for in current stock prices…." (Baudino at 34)

Q. ARE FLOTATION COSTS ALREADY REFLECTED IN STOCK PRICES?

A. No. Flotation costs are an expense that is deducted from the proceeds associated with a stock issuance before the proceeds are distributed to the issuing company. Because the stock price reflects the return on the amount of cash actually invested by the company, and flotation costs are deducted from the proceeds of a stock issuance prior to the distribution of the net proceeds to the company, flotation costs are not included in the stock price.

Q. IF FLOTATION COSTS ARE AN EXPENSE, WHY DO YOU INCLUDE THEM IN YOUR CALCULATION OF A COMPANY'S COST OF EQUITY?

A. I include flotation costs in my calculation of a company's cost of equity because the company will not be able to earn a fair return on equity if flotation costs are not included in the estimate of the cost of equity.

Q. CAN YOU ILLUSTRATE WHY A COMPANY WILL NOT BE ABLE TO EARN A FAIR RETURN ON EQUITY IF FLOTATION COSTS ARE NOT INCLUDED IN THE ESTIMATE OF THE COST OF EQUITY?

A. Yes. Assume that a company issues $100 in equity, incurs $3 in flotation costs, and that the investors' required rate of return on equity is 10 percent. To satisfy the investors' return requirement, the company must earn a $10 return on the $100 stock holders invest in the company. However, because of the flotation cost, the company will have only $97 to invest in rate base. Thus, the company must earn a 10.31 percent return on its $97 investment in order to earn the investors' required $10 return (10.31% x $97 = $10).

Q. ARE EQUITY FLOTATION COSTS TYPICALLY INCLUDED IN THE OPERATING EXPENSES A COMPANY USES TO CALCULATE ITS REVENUE REQUIREMENT?

A. No. Equity flotation costs are typically treated as an offset to the proceeds of a new equity issuance in the equity account on the balance sheet rather than as an operating expense in the company's income statement.

Q. WHAT IS THE ECONOMIC BASIS OF YOUR RECOMMENDED FLOTATION COST ALLOWANCE?

A. My recommended flotation cost allowance is based on the fundamental economic and regulatory principles that: (1) a company should only invest in a new project if it can earn a return on its investment that is equal to or greater than its cost of capital; and (2) the time pattern of expense recovery should match the time pattern of benefits resulting from the expense. Because equity flotation costs are a legitimate expense of raising capital, a company has no incentive to invest in new capital projects if equity flotation costs are not included in the cost of capital estimate. In addition, because the proceeds of an equity issuance are invested in assets that provide benefits over a long time period, the costs of an equity issuance should be recovered over a long period of time.

Q. IS THE NEED FOR A FLOTATION COST ALLOWANCE ELIMINATED IF A COMPANY'S STOCK IS SELLING ABOVE BOOK VALUE?

A. No. Because of flotation costs, the amount of money a company can invest in new projects will always be less than the amount of equity it issues in the capital markets. This statement remains true even if the company's stock is selling above book value. For example, in the illustration above, the $100 equity issuance is a measure of the company's market price, and the $95 that the company invests in new projects is a measure of the book value of those projects. Yet, as we demonstrated above, in order to earn the required return of 10 percent, the company has to earn 10.53 percent on its book equity. The difference between the 10.53 percent required return on the project and the investors' 10 percent required return on the investment in the company is the flotation cost allowance.

Q. HAS THE COMPANY EXPERIENCED EQUITY FLOTATION COSTS ON COMMON STOCK OFFERINGS IN RECENT YEARS?

A. Yes. Atmos Energy incurred flotation costs associated with new equity issuances most recently in the years 2017, 2014, 2006, and 2004. In these offerings, Atmos Energy experienced flotation costs in the range 4 percent to 10.5 percent. As I discuss in my direct testimony, Appendix 3, Atmos Energy's flotation costs are similar to the flotation costs companies typically incur in issuing new securities in the market place.

Q. HOW DO YOU DETERMINE THE AMOUNT OF FLOTATION COSTS INCURRED BY ATMOS ENERGY IN THESE EQUITY ISSUANCES?

A. I determine the amount of equity flotation costs Atmos Energy incurred from information contained in the prospectus documents filed by the Company with the Securities Exchange Commission ("SEC"). For example, in the Company's February 2014 equity offering of 9,200,000 shares, the Company's closing stock price on February 10, 2014, just prior to the filing of the prospectus, was $47.41 per share; and the public offering price for this issuance was $44.00. Thus, the Company's flotation costs as a percent of the pre-issue price are 10.5 percent. The calculation of these flotation costs for the other equity issuances since 2004 are shown in Exhibit JVW-1 Rebuttal Schedule 1.

Q. IS A FLOTATION COST ADJUSTMENT ONLY APPROPRIATE IF A COMPANY ISSUES STOCK DURING THE TEST YEAR?

A. No. As described in Exhibit JVW-1, Appendix 1, a flotation cost adjustment is required whether or not a company has issued new stock during the test year. Previously incurred flotation costs have not been recovered in previous rate cases; rather, they are a permanent cost associated with past issues of common stock. Just as an adjustment is made to the embedded cost of debt to reflect previously incurred debt issuance costs (regardless of whether additional bond issuances were made in the test year), so should an adjustment be made to the cost of equity regardless of whether additional stock was issued during the test year.

Q. MR. BAUDINO'S RECOMMENDED 8.8 PERCENT ROE FOR ATMOS ENERGY IS BASED ENTIRELY ON HIS DCF ANALYSIS. DO YOU PROVIDE A DCF ESTIMATE OF ATMOS ENERGY'S COST OF EQUITY IN YOUR DIRECT TESTIMONY?

A. Yes. My application of the DCF model produced a DCF estimate of 9.4 percent (Vander Weide Direct, Table 2, at 45).

III. <u>MR. BAUDINO'S CAPM ANALYSIS</u>

Q. WHAT IS THE CAPM?

A. The CAPM is an equilibrium model of expected returns on risky securities in which the expected or required return on a given risky security is equal to the risk-free rate of interest plus the security's "beta" times the market risk premium:

Expected return = Risk-free rate + (Security beta x Market risk premium).

The risk-free rate in this equation is the expected rate of return on a risk-free government security, the security beta is a measure of the company's risk relative to the market as a whole, and the market risk premium is the premium investors require to invest in the market basket of all securities compared to the risk-free security.

Q. HOW DOES MR. BAUDINO USE THE CAPM TO ESTIMATE ATMOS ENERGY'S COST OF EQUITY?

A. The CAPM requires estimates of the risk-free rate, the company-specific risk factor, or beta, and either the required return on an investment in the market portfolio, or the risk premium on the market portfolio compared to an investment in risk-free government securities. For the risk-free rate, Mr. Baudino uses the six-month average 2.59 percent yield to maturity on 20-year Treasury bonds (July through December 2017) and the six-month average 1.88 percent yield to maturity on five-year Treasury bonds (July through December 2017). For the company-specific risk factor or beta, Mr. Baudino uses the average Value Line beta for his natural gas utility group, 0.73. For the risk premium on the market portfolio, Mr. Baudino calculates a forward-looking risk premium in the range 6.76 percent to 7.47 percent by subtracting his 2.59 percent and 1.88 percent risk-free rate estimates from his 9.35 percent estimate of the expected return on the Value Line universe of companies. In addition, Mr. Baudino uses historical risk premiums in the range 5.0 percent to 7.0 percent, which reflect the historical geometric and arithmetic mean risk premiums on the market portfolio over the period 1926 to 2016 [Baudino at 21 - 27, Exhibit__(RAB-6), Exhibit___(RAB-7)].

Q. WHAT RESULTS DOES MR. BAUDINO OBTAIN FROM HIS CAPM STUDIES?

A. Using his estimated risk premium for the Value Line universe of companies, Mr. Baudino obtains CAPM cost of equity estimates in the range 7.29 percent to 7.49 percent (Exhibit___(RAB-6); using his historical risk premiums, Mr. Baudino obtains CAPM cost of equity estimates in the range 6.21 percent to 7.66 percent (Exhibit___(RAB-7).

Q. DO YOU AGREE WITH MR. BAUDINO'S CAPM ANALYSIS OF ATMOS ENERGY'S COST OF EQUITY?

A. No. I disagree with Mr. Baudino's: (1) use of the current yields on both five-year Treasury notes and twenty-year Treasury bonds to estimate the risk-free rate;

(2) use of current Treasury yields rather than forecasted bond yields; (3) use of both geometric mean and arithmetic mean historical returns on the S&P 500 to estimate the market risk premium; (4) failure to recognize that the CAPM underestimates the cost of equity for companies with betas less than 1.0; and (5) failure to recognize that the CAPM underestimates the cost of equity for companies in his proxy group with small market capitalizations.

Q. WHY DO YOU DISAGREE WITH MR. BAUDINO'S USE OF BOTH FIVE-YEAR TREASURY NOTES AND 20-YEAR TREASURY BONDS IN HIS CAPM ANALYSIS?

A. I disagree with Mr. Baudino's use of both five-year Treasury notes and 20-year Treasury bonds because Atmos Energy's property, plant, and equipment is long lived, and the yield on five-year Treasury notes is not risk free over the long life of Atmos Energy's rate base investment.

Q. WHAT IS THE DIFFERENCE BETWEEN FIVE-YEAR TREASURY AND 20-YEAR TREASURY BONDS AT THE TIME OF MR. BAUDINO'S STUDIES?

A. At the time of his studies, the yield on five-year Treasury notes was 1.88 percent, and the yield on 20-year Treasury bonds was 2.59 percent, a difference of 71 basis points.

Q. WHY DO YOU DISAGREE WITH MR. BAUDINO'S USE OF CURRENT YIELDS RATHER THAN FORECASTED YIELDS ON TREASURY SECURITIES TO ESTIMATE THE RISK-FREE RATE COMPONENT OF THE CAPM?

A I disagree with Mr. Baudino's use of current yields on Treasury securities to estimate the risk-free rate component of the CAPM because current yields on Treasury securities are artificially low as a result of the Federal Reserve's efforts to stimulate the economy. I recommend using the forecasted interest rate on long-term Treasury bonds rather than current interest rates to estimate the risk-free rate component of the CAPM because current interest rates have been determined more by Federal Reserve policy interventions than by market forces. Thus, forecasted interest rates are better indicators of investor-required returns on Treasury securities in the market place over the period during which the Company's rates will be in effect. At the time of my direct testimony, the forecasted yield on 20-year Treasury bonds was approximately 4.2 percent, whereas Mr. Baudino's CAPM studies use a Treasury bond yield equal to 2.59 percent.

Q. IS IT APPROPRIATE FOR MR. BAUDINO TO USE BOTH GEOMETRIC MEAN AND ARITHMETIC MEAN RETURNS ON THE S&P 500 TO ESTIMATE THE RISK PREMIUM ON THE MARKET PORTFOLIO?

A. No. As I describe in my direct testimony, I recommend using the arithmetic mean return rather than the geometric mean return because the arithmetic mean return is the only return that will discount the investor's expected future wealth to the current price of the investment (see Vander Weide Direct Testimony, Schedule JVW-5).

Q. YOU NOTE THAT MR. BAUDINO FAILS TO ADJUST FOR THE TENDENCY OF THE CAPM TO UNDERESTIMATE THE COST OF EQUITY FOR COMPANIES WITH BETAS LESS THAN 1.0. DO YOU HAVE EVIDENCE THAT THE CAPM TENDS TO UNDERESTIMATE THE COST OF EQUITY FOR COMPANIES WITH BETAS LESS THAN 1.0?

A. Yes. The original evidence that the unadjusted CAPM tends to underestimate the cost of equity for companies whose equity beta is less than 1.0 and to overestimate the cost of equity for companies whose equity beta is greater than 1.0 was presented in a paper by Black, Jensen, and Scholes, "The Capital Asset Pricing Model: Some Empirical Tests." Numerous subsequent papers have validated the Black, Jensen, and Scholes findings, including those by Litzenberger and Ramaswamy, Banz, Fama and French, and Fama and MacBeth. (See Vander Weide Direct at 39.)

Q. DO YOU HAVE ADDITIONAL EVIDENCE THAT THE CAPM TENDS TO UNDERESTIMATE THE COST OF EQUITY FOR UTILITY COMPANIES WITH AVERAGE BETAS LESS THAN 1.0?

A. Yes. As described in my direct testimony, over the period 1937 to 2017, investors in the S&P Utilities Stock Index have earned a risk premium over the yield on long-term Treasury bonds equal to 5.47 percent, while investors in the S&P 500 have earned a risk premium over the yield on long-term Treasury bonds equal to

6.08 percent. According to the CAPM, investors in utility stocks should expect to earn a risk premium over the yield on long-term Treasury securities equal to the average utility beta times the expected risk premium on the S&P 500. Thus, the ratio of the risk premium on the utility portfolio to the risk premium on the S&P 500 should equal the utility beta. However, the average natural gas utility beta at the time of my studies is approximately 0.74, whereas the historical ratio of the utility risk premium to the S&P 500 risk premium is 0.90 (5.47 ÷ 6.08 = 0.90). In short, the current 0.74 measured beta for natural gas utilities underestimates the cost of equity for natural gas utilities, providing further support for the conclusion that the CAPM underestimates the cost of equity for natural gas utilities at this time.

Q. YOU ALSO NOTE THAT MR. BAUDINO FAILS TO ACKNOWLEDGE THAT THE CAPM UNDERESTIMATES THE COST OF EQUITY FOR COMPANIES WITH SMALL MARKET CAPITALIZATIONS. DO YOU PROVIDE EVIDENCE IN YOUR DIRECT TESTIMONY ON THE REQUIRED RISK PREMIUM ON INVESTMENTS IN SMALL AND MID-CAP COMPANIES WHEN ESTIMATING THE COST OF EQUITY USING THE CAPM?

A. Yes. I provide evidence that the required risk premium on investments in small and mid-cap companies is 1.02 percent to 3.67 percent greater than the required risk premium on large market capitalization companies when using the CAPM to estimate the cost of equity (see Vander Weide Direct, Table 1, at 39).

Q. DO YOU PROVIDE CAPM ESTIMATES OF YOUR NATURAL GAS UTILITIES COST OF EQUITY IN YOUR DIRECT TESTIMONY?

A. Yes. I provide an historical CAPM estimate equal to 10.2 percent and a DCF-based CAPM estimate equal to 10.7 percent (Vander Weide Direct, Table 2, at 45).

Q. DO YOU ALSO PROVIDE RISK PREMIUM ESTIMATES OF ATMOS ENERGY'S COST OF EQUITY IN YOUR DIRECT TESTIMONY?

A. Yes. I provide an ex ante risk premium estimate equal to 11.0 percent and an ex post risk premium estimate equal to 10.2 percent (Vander Weide Direct, Table 2, at 45).

IV. REBUTTAL OF MR. BAUDINO'S COMMENTS ON MY DIRECT TESTIMONY

Q. WHAT METHODS DO YOU USE TO ESTIMATE ATMOS ENERGY'S COST OF EQUITY IN THIS PROCEEDING?

A. I estimate Atmos Energy's cost of equity using the DCF, the ex ante risk premium, the ex post risk premium, and the CAPM.

Q. WHAT ARE MR. BAUDINO'S CRITICISMS OF YOUR COST OF EQUITY ESTIMATES FOR ATMOS ENERGY?

A. Mr. Baudino disagrees with my: (1) use of a quarterly DCF model rather than an annual DCF model; (2) including an allowance for flotation costs; (3) estimates of investors' growth expectations in my DCF analysis; (4) use of forecasted interest rates in my risk premium and CAPM analyses; (5) calculation of the risk premium in my ex post risk premium analysis; (6) inclusion of a size premium in

CAPM analysis; (7) estimate of beta in my CAPM analysis; and (8) argument that my cost of equity recommendation is conservative.

Q. WHAT IS MR. BAUDINO'S CONCERN WITH YOUR USE OF A QUARTERLY DCF MODEL?

A. Mr. Baudino argues that using a quarterly DCF model to estimate the cost of equity "overcompensates" investors because quarterly dividends are "already accounted for in a company's stock price since investors know that dividends are paid quarterly." (Baudino at 33)

Q. DO YOU AGREE WITH MR. BAUDINO'S ASSERTION THAT THE QUARTERLY DCF MODEL "OVERCOMPENSATES" INVESTORS FOR THE QUARTERLY PAYMENT OF DIVIDENDS BECAUSE QUARTERLY DIVIDENDS ARE "ALREADY ACCOUNTED FOR IN A COMPANY'S STOCK PRICE"?

A. No. The DCF model is based on the premise that a company's stock price is equal to the present value of the cash flows investors expect to earn from their investment in the company and that the investor's required return—the cost of equity—can be calculated by finding that discount rate which equates the present value of the dividend payments to the stock price. When dividends are paid quarterly, the stock price reflects the *quarterly* timing of the dividend payments, as Mr. Baudino himself acknowledges. However, Mr. Baudino fails to recognize that quarterly dividends *can only be reflected* in a company's stock price *if they are also reflected* in the sequence of expected cash flows and the cost of equity.

Q. CAN YOU EXPLAIN FURTHER WHY THE QUARTERLY PAYMENT OF DIVIDENDS CAN ONLY BE REFLECTED IN A COMPANY'S STOCK PRICE IF THEY ARE ALSO REFLECTED IN THE SEQUENCE OF EXPECTED FUTURE CASH FLOWS AND THE COST OF EQUITY?

A. Yes. The quarterly DCF model, with the price term on the left side of the equation, can be stated in the form of the following equation (*see* Vander Weide Direct, Appendix 2, Equation 7):

$$P_0 = \frac{d_0 (1+g)^{\frac{1}{4}}}{(1+k)^{\frac{1}{4}} - (1+g)^{\frac{1}{4}}}$$

where:

P_0 = current stock price;

d_0 = current quarterly dividend;

g = expected future growth; and

k = investors' required return.

As an equation, the DCF equation can *only* be a correct representation of the stock price if the information in the left side of the equation, the stock price, is identical to the information in the right side of the equation, the dividend and cost of equity values. Thus, when dividends are paid quarterly, the value of the quarterly payment of dividends must be reflected in all three terms of the DCF equation at once, that is, in the stock price, the timing of the dividends, and the cost of equity.

Q. PLEASE EXPLAIN WHY THE USE OF A QUARTERLY DCF MODEL CORRECTLY COMPENSATES AND DOES NOT "OVERCOMPENSATE" THE RETURN INVESTORS' EXPECT TO EARN FROM THEIR INVESTMENT IN THE COMPANY, AND THUS, CORRECTLY ESTIMATES THE COMPANY'S COST OF EQUITY?

A. Yes. The DCF model is based on the assumption that a company's stock price is equal to the present value of the cash flows investors expect to receive from their ownership of the stock. Because the quarterly DCF model is the only DCF model that equates a company's stock price to the present value of the cash flows investors expect to receive from owning the stock, the quarterly model must be used to estimate the cost of equity for companies such as those in Mr. Baudino's and my comparable groups that pay quarterly dividends. Contrary to Mr. Baudino's assertion, it is precisely because the value of quarterly dividends is reflected in a company's stock price that quarterly dividends must be used to estimate the investor's expected return on their investment in a company's stock. Intuitively, a company's cost of equity as measured by the DCF model reflects both the company's stock price and investors' expected future amounts and timing of expected future cash flows. There must be congruence between the information included in the stock price and the information included in the cash flows.

Q. DO YOU HAVE OTHER CRITICISMS OF MR. BAUDINO'S APPLICATION OF HIS ANNUAL DCF MODEL TO ESTIMATE ATMOS ENERGY'S COST OF EQUITY?

A. Yes. The annual DCF model is based on the assumptions that dividends are paid annually at the end of each year and that annual dividends grow at a constant annual rate. Under these assumptions, the company's annual dividend at the end of year one is equal to the company's annual dividend at the end of year zero times the factor $(1 + g)$. In contrast, Mr. Baudino improperly assumes that the company's annual dividend at the end of year one is equal to the annual dividend at the end of year zero times the factor $(1 + 0.5\,g)$. Mr. Baudino's incorrect growth assumption further reduces his DCF estimate of Atmos Energy's cost of equity.

Q. WHY DOES MR. BAUDINO DISAGREE WITH YOUR ALLOWANCE FOR FLOTATION COSTS?

A. Mr. Baudino disagrees with my allowance for flotation costs because, in his opinion, flotation costs are already included in stock prices (Baudino at 34).

Q. DO YOU REBUT MR. BAUDINO'S FLOTATION COST ARGUMENTS IN YOUR REBUTTAL TESTIMONY ABOVE?

A. Yes. I rebut Mr. Baudino's arguments regarding flotation costs above in Section II.

Q. MR. BAUDINO ALSO DISAGREES WITH YOUR RELIANCE ON EARNINGS GROWTH FORECASTS IN YOUR DCF ANALYSIS. WHY DO YOU RELY ON EARNINGS GROWTH FORECASTS IN YOUR DCF ANALYSIS?

A. I rely on earnings growth forecasts as the estimate of investors' expected growth in the DCF model because the DCF model requires the use of investors' growth expectations, and my studies indicate that earnings growth forecasts are the best proxy for investors' growth expectations in the DCF model. Furthermore, although earnings and dividends must grow at approximately the same rate in the long run, dividends sometimes grow at a different rate than earnings in the short term because a company is adjusting its dividend payout ratio to a different value. Because dividend growth during the transition to the new target dividend payout ratio will not reflect long-run expected dividend growth, analysts' earnings per share estimates are better estimates of long-run future growth than dividend growth forecasts. (See Vander Weide Direct at 22 – 23.)

Q. MR. BAUDINO ALSO DISAGREES WITH YOUR USE OF FORECASTED INTEREST RATES IN YOUR RISK PREMIUM STUDIES. WHY DO YOU USE FORECASTED INTEREST RATES IN YOUR RISK PREMIUM STUDIES?

A. I use forecasted interest rates in my risk premium studies because the rates in this proceeding should be sufficient to provide Atmos Energy an opportunity to earn its required return on equity during the period in which rates will be in effect.

Q. WHAT IS MR. BAUDINO'S DISAGREEMENT WITH YOUR USE OF FORECASTED INTEREST RATES?

A. Mr. Baudino argues that forecasted interest rates could not possibly be higher than current interest rates because, if they were, investors would adjust current bond yields to avoid or minimize capital losses in the future. (Baudino at 35)

Q. DO YOU AGREE WITH MR. BAUDINO'S ASSERTION THAT FORECASTED INTEREST RATES MUST BE EQUAL TO CURRENT INTEREST RATES?

A. No. If investors always expected forecasted interest rates to be equal to current interest rates, they would be unwilling to pay for economic forecasts from firms such as Consensus Economics, Blue Chip, and others. The fact that numerous firms and individuals spend considerable sums to obtain forecasts of interest rates is sufficient evidence that they do not believe that current interests rates are the best forecast of future interest rates.

Q. WHAT ARE MR. BAUDINO'S CRITICISMS OF YOUR RISK PREMIUM ESTIMATES?

A. Mr. Baudino contends that: (1) long-term historical risk premium studies may not reflect investors' current required risk premiums; and (2) investors' expectations for natural gas distribution companies may be different than their expectations for the S&P 500. (Baudino at 37.)

Q. ARE HISTORICAL RISK PREMIUM STUDIES COMMONLY USED TO ESTIMATE THE INVESTOR'S CURRENT REQUIRED MARKET RISK PREMIUM?

A. Yes. Although the current required market risk premium is uncertain, long-term historical studies of the returns on stocks compared to bonds are one frequently-used method for estimating the current required risk premium. In my direct testimony, I also provide an ex ante risk premium study of Atmos Energy's required return on equity.

Q. DOES MR. BAUDINO HIMSELF USE HISTORICAL RISK PREMIUM DATA TO ESTIMATE THE REQUIRED MARKET RISK PREMIUM IN HIS CAPM ANALYSIS?

A. Yes. As I discuss above, as one of his two methods for estimating the required risk premium on the market portfolio, Mr. Baudino relies on historical geometric and arithmetic mean risk premium data from the Ibbotson® SBBI® Classic Yearbook.

Q. WHY DO YOU INCLUDE A SIZE PREMIUM IN YOUR CAPM STUDIES OF ATMOS ENERGY'S COST OF EQUITY?

A. As I discuss in my direct testimony, I include a size premium because the finance literature provides evidence that the CAPM underestimates the required return on equity for small- and mid-capitalization stocks, such as the stocks of the natural gas utilities in my proxy group (see Vander Weide Direct at 38 – 39).

Q. DOES MR. BAUDINO AGREE WITH YOUR INCLUSION OF A SIZE PREMIUM IN YOUR CAPM ESTIMATE OF ATMOS ENERGY'S COST OF EQUITY?

A. No. Mr. Baudino argues that the size premium is inappropriate because the size premium evidence is based on CAPM results for companies with higher betas than the typical natural gas utility stock. (Baudino at 38 - 39)

Q. IS MR. BAUDINO CORRECT WHEN HE ARGUES THAT THE SIZE PREMIUM IS INAPPROPRIATE BECAUSE THE SIZE PREMIUM EVIDENCE YOU CITE REFLECTS CAPM RESULTS FOR SOME COMPANIES WITH HIGHER BETAS THAN THE TYPICAL NATURAL GAS UTILITY?

A. No. Mr. Baudino fails to recognize that the size premium evidence I cite already adjusts for the impact of the sample companies' betas on the estimate of the cost of equity. Because the size premium evidence correctly adjusts for the impact of the sample companies' betas, the size premium applies to all small market capitalization companies, including my natural gas utilities.

Q. WHAT BETA ESTIMATE DO YOU USE IN YOUR CAPM ANALYSES?

A. I use both the average Value Line beta for my comparable companies and the 0.90 beta I estimate based on the long-term average risk premium on utility stocks compared to the average risk premium on an investment in the S&P 500 (see Vander Weide Direct at 41 – 42).

Q. IS MR. BAUDINO CRITICAL OF YOUR USE OF BOTH THE AVERAGE VALUE LINE BETA AND THE 0.90 BETA YOU ESTIMATE FROM LONG-TERM HISTORICAL EVIDENCE?

A. Yes. Mr. Baudino argues that my use of a 0.90 beta along with a 0.74 beta is inappropriate because: (1) using a 0.90 beta assumes that "utility stocks are more volatile relative to the market as a whole than they really are;" and (2) "realized returns and risk premiums may not be indicative of investor expectations and future return requirements" (Baudino at 39 − 40)

Q. IS MR. BAUDINO CORRECT WHEN HE ASSERTS THAT USE OF A 0.90 BETA ASSUMES THAT "UTILITY STOCKS ARE MORE RISKY THAN THEY REALLY ARE"?

A. No. First, I note that Mr. Baudino provides no evidence for his assertion. Second, Mr. Baudino fails to acknowledge that my use of a 0.90 beta is based on the strong evidence that investors have earned risk premiums on utility stocks over the period 1937 to 2017 that are approximately 90 percent of the risk premiums investors have earned on their investments in the S&P 500 over the same period (see Vander Weide Direct at 41, and Schedule 7). According to the CAPM, a utility's beta should equal the ratio of the average risk premium on utility stocks to the average risk premium on the market portfolio. My evidence supports the conclusion that the ratio of the average risk premium on utility stocks to the average risk premium on the S&P 500 over the period 1937 to 2017 is 0.90, a number that is significantly higher than Mr. Baudino's recommended beta equal to 0.73.

Q. DO YOU AGREE WITH MR. BAUDINO'S ARGUMENT THAT YOUR 0.90 BETA ESTIMATE IS INAPPROPRIATE BECAUSE REALIZED RETURNS AND RISK PREMIUMS MAY NOT BE INDICATIVE OF INVESTORS' EXPECTATIONS AND FUTURE RETURN REQUIREMENTS?

A. No. First, Mr. Baudino fails to acknowledge that the 0.73 Value Line beta he uses is also based on realized returns, an hence, risk premiums on utility stocks, but over a significantly shorter three-to-five-year period rather than the 1937 to 2017 period in my study. Second, Mr. Baudino fails to acknowledge that I use both the average Value Line beta and the 0.90 beta based on long-run historical returns. Although there is no guarantee that either of these beta estimates is indicative of investors' future expectations, it is likely that the average of the two historical betas is more accurate than Mr. Baudino's single beta estimate based on three to five years of historical data.

Q. MR. BAUDINO ALSO DISAGREES WITH YOUR CLAIM THAT YOUR 10.3 PERCENT COST OF EQUITY RECOMMENDATION IS CONSERVATIVE, STATING THAT "RATEMAKING DOES NOT USE THE MARKET VALUE EQUITY RATIO…TO ESTIMATE THE COST OF EQUITY." (BAUDINO AT 41) HAS MR. BAUDINO CORRECTLY CHARACTERIZED YOUR REASONING FOR STATING THAT YOUR COST OF EQUITY RECOMMENDATION IS CONSERVATIVE?

A. No. Both Mr. Baudino and I recognize that regulators use book value equity ratios to set utility rates, but Mr. Baudino fails to acknowledge that equity investors measure financial risk based on market value equity ratios. As I discuss in my direct testimony, my cost of equity estimate is conservative because my cost of equity estimate reflects investors' views of the financial risk they experience in the marketplace based on market value percentages of debt and equity, whereas regulators set rates based on the book values of debt and equity in a utility's capital structure.

V. <u>UPDATED COST OF EQUITY STUDIES</u>

Q. HOW DO YOU ESTIMATE ATMOS ENERGY'S COST OF EQUITY IN YOUR DIRECT TESTIMONY?

A. In my direct testimony, I estimate Atmos Energy's cost of equity by applying standard cost of equity methods, including the DCF, the ex ante risk premium method, the ex post risk premium method, and the CAPM to market data for proxy groups of publicly-traded natural gas utilities. A complete description of these methods and my application of these methods is found in my direct testimony.

Q. IN YOUR UPDATED ANALYSES, DO YOU APPLY YOUR METHODS IN THE SAME MANNER AS IN YOUR DIRECT TESTIMONY?

A. Yes. My updated analyses are implemented in the same manner as that presented in my direct testimony.

Q. DO YOUR UPDATED ANALYSES CAUSE YOU TO CHANGE YOUR RECOMMENDED COST OF EQUITY FOR ATMOS ENERGY?

A. No. The average result of my updated cost of equity studies for my proxy group of publicly-traded natural gas distribution utilities is 10.4 percent (see Table 1 below), an average result which is ten basis points higher than the result I obtained from the studies presented in my direct testimony. Exhibits showing the detailed results of my updated studies accompany my testimony, Rebuttal Schedules 2 through 10.

TABLE 1
COST OF EQUITY MODEL RESULTS

METHOD	MODEL RESULT
DCF—LDC	9.1%
Ex Ante Risk Premium	11.0%
Ex Post Risk Premium	10.4%
CAPM-Historical	10.1%
CAPM-DCF Based	11.3%
Average	10.4%

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF	)	
RATE APPLICATION OF	)	Case No. 2017-00349
ATMOS ENERGY CORPORATION	)	

CERTIFICATE AND AFFIDAVIT

The Affiant, James H. Vander Weide, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared rebuttal testimony of this affiant in Case No. 2017-00349, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared rebuttal testimony.

James H. Vander Weide

James H. Vander Weide

STATE OF North Carolina

COUNTY OF Durham

SUBSCRIBED AND SWORN to before me by James H. Vander Weide on this the 20th day of February, 2018.

JUSTIN COUCH
Notary Public
Orange Co., North Carolina
My Commission Expires Nov. 7, 2022

Notary Public

My Commission Expires: 11-7-22

LIST OF REBUTTAL SCHEDULES

Rebuttal Schedule 1	Atmos Energy Flotation Costs
Rebuttal Schedule 2	Summary of Discounted Cash Flow Analysis for Natural Gas Distribution Utilities
Rebuttal Schedule 3	Comparison of the DCF Expected Return on an Investment in Natural Gas Utilities to the Interest Rate on Moody's A-Rated Utility Bonds
Rebuttal Schedule 4	Comparative Returns on S&P 500 Stock Index and Moody's A-Rated Bonds 1937—2018
Rebuttal Schedule 5	Comparative Returns on S&P Utility Stock Index and Moody's A-Rated Bonds 1937—2018
Rebuttal Schedule 6	Using the Arithmetic Mean to Estimate the Cost of Equity Capital
Rebuttal Schedule 7	Calculation of Capital Asset Pricing Model Cost of Equity Using the Ibbotson® SBBI® 6.9 Percent Risk Premium
Rebuttal Schedule 8	Comparison of Risk Premiums on S&P500 and S&P Utilities 1937 – 2017
Rebuttal Schedule 9	Calculation of Capital Asset Pricing Model Cost of Equity Using DCF Estimate of the Expected Rate of Return on the Market Portfolio

ATMOS ENERGY
EXHIBIT JVW-1
REBUTTAL SCHEDULE 1
ATMOS ENERGY FLOTATION COSTS

December 1, 2017 Public Offering	Price per Share	No. of Shares	Total
Closing Price at Date Just Prior to Issuance (11/28/2017)	$90.27		
Underwriters' Price	$86.79	4,558,404	$ 395,623,883
Difference between gross and net proceeds			$ 623,883
Net proceeds	$86.65	4,558,404	$ 395,000,000
Flotation costs as percent of pre-issue price			4.0%
February 11, 2014 Public Offering	Price per Share	No. of Shares	Total
Closing Price at Date Just Prior to Issuance (2/10/14)	$ 47.41		
Public Offering Price	$ 44.00	9,200,000	$ 404,800,000
Underwriting discounts, commissions	$ 1.54	9,200,000	$ 14,168,000
Proceeds before expenses	$ 42.46	9,200,000	$ 390,632,000
Expenses			$ 350,000
Total Commissions, expenses			$ 14,518,000
Net proceeds	$ 42.42	9,200,000	$ 390,282,000
Flotation costs as % of pre-issue price			10.5%
December 7, 2006 Public Offering	Price per Share	No. of shares	Total
Closing Price at Date Just Prior to Issuance (12/96/06)	$ 32.72		
Public Offering Price	$ 31.50	5,500,000	$ 173,250,000
Underwriting discounts, commissions	$ 1.10	5,500,000	$ 6,050,000
Proceeds before other expenses	$ 30.40	5,500,000	$ 167,200,000
Expenses			$ 166,800
Total Commissions, expenses			$ 6,216,800
Net proceeds	$ 30.37	5,500,000	$ 167,033,200
Flotation costs as % of pre-issue price			7.2%
October 21, 2004 Public Offering	Price per Share	No. of shares	Total
Closing Price at Date Just Prior to Issuance (10/20/04)	$ 25.07		
Public Offering Price	$ 24.75	14,000,000	$ 346,500,000
Underwriting discounts, commissions	$ 0.99	14,000,000	$ 13,860,000
Proceeds before other expenses	$ 23.76	14,000,000	$ 332,640,000
Expenses			$ 440,000
Total Commissions, expenses			$ 14,300,000
Net proceeds	$ 23.73	14,000,000	$ 332,200,000
Flotation costs as % of pre-issue price			5.4%
July 13, 2004 Public Offering	Price per Share	No. of shares	Total
Closing Price at Date Just Prior to Issuance (07/12/04)	$ 25.14		
Public Offering Price	$ 24.75	8,650,000	$ 214,087,500
Underwriting discounts, commissions	$ 0.99	8,650,000	$ 8,563,500
Proceeds before other expenses	$ 23.76	8,650,000	$ 205,524,000
Expenses			$ 205,100
Total Commissions, expenses			$ 8,768,600
Net proceeds	$ 23.74	8,650,000	$ 205,318,900
Flotation costs as % of pre-issue price			5.6%

ATMOS ENERGY
EXHIBIT__(JVW-1)
REBUTTAL SCHEDULE 2
SUMMARY OF DISCOUNTED CASH FLOW ANALYSIS
FOR NATURAL GAS DISTRIBUTION UTILITIES

	COMPANY	MOST RECENT QUARTERLY DIVIDEND (d_0)	STOCK PRICE (P_0)	I/B/E/S FORECAST OF FUTURE EARNINGS GROWTH	MARKET CAP $ (MIL)	DCF MODEL RESULT
1	Atmos Energy	0.485	87.006	6.50%	8,953	8.9%
2	Chesapeake Utilities	0.325	78.975	8.10%	1,136	10.0%
3	New Jersey Resources	0.273	41.792	6.00%	3,377	8.9%
4	NiSource Inc.	0.175	25.987	7.80%	8,076	11.0%
5	Northwest Nat. Gas	0.473	62.925	4.00%	1,650	7.4%
6	ONE Gas Inc.	0.420	74.671	6.00%	3,617	8.6%
7	South Jersey Inds.	0.280	31.877	6.00%	2,347	10.0%
8	Spire Inc.	0.563	76.138	4.52%	3,291	7.7%
9	UGI Corp.	0.250	47.702	6.20%	8,020	8.6%
10	Average					9.0%
11	Market-weighted Average					9.2%
12	Average, simple, market-weighted					9.1%

Notes:

d_0 = Most recent quarterly dividend.
d_1,d_2,d_3,d_4 = Next four quarterly dividends, calculated by multiplying the last four quarterly dividends per *Value Line* and Yahoo Finance, by the factor (1 + g).
P_0 = Average of the monthly high and low stock prices during the three months ending per Thomson Reuters.
FC = Flotation costs expressed as a percent of gross proceeds.
g = Average of I/B/E/S and Value Line forecasts of future earnings growth January 2018.
k = Cost of equity using the quarterly version of the DCF model shown by the formula below:

$$k = \frac{d_1(1+k)^{.75} + d_2(1+k)^{.50} + d_3(1+k)^{.25} + d_4}{P_0(1-FC)} + g$$

ATMOS ENERGY
EXHIBIT__(JVW-1)
REBUTTAL SCHEDULE 3
COMPARISON OF DCF EXPECTED RETURN
ON AN EQUITY INVESTMENT IN NATURAL GAS DISTRIBUTION UTILITIES
TO THE INTEREST RATE ON A-RATED UTILITY BONDS

In this analysis, I compute a natural gas utility equity risk premium by comparing the DCF estimated cost of equity for a natural gas utility proxy group to the interest rate on A-rated utility bonds. For each month in my June 1998 through January 2018 study period:

DCF	=	Average DCF-estimated cost of equity on a portfolio of proxy companies;
Bond Yield	=	Yield to maturity on an investment in A-rated utility bonds; and
Risk Premium	=	DCF – Bond yield.

A more detailed description of my ex ante risk premium method is contained in Appendix 4.

LINE	DATE	DCF	BOND YIELD	RISK PREMIUM
1	Jun-98	0.1154	0.0703	0.0451
2	Jul-98	0.1186	0.0703	0.0483
3	Aug-98	0.1234	0.0700	0.0534
4	Sep-98	0.1273	0.0693	0.0580
5	Oct-98	0.1260	0.0696	0.0564
6	Nov-98	0.1211	0.0703	0.0508
7	Dec-98	0.1185	0.0691	0.0494
8	Jan-99	0.1195	0.0697	0.0498
9	Feb-99	0.1243	0.0709	0.0534
10	Mar-99	0.1257	0.0726	0.0531
11	Apr-99	0.1260	0.0722	0.0538
12	May-99	0.1221	0.0747	0.0474
13	Jun-99	0.1208	0.0774	0.0434
14	Jul-99	0.1222	0.0771	0.0451
15	Aug-99	0.1220	0.0791	0.0429
16	Sep-99	0.1226	0.0793	0.0433
17	Oct-99	0.1233	0.0806	0.0427
18	Nov-99	0.1240	0.0794	0.0446
19	Dec-99	0.1280	0.0814	0.0466
20	Jan-00	0.1301	0.0835	0.0466
21	Feb-00	0.1344	0.0825	0.0519
22	Mar-00	0.1344	0.0828	0.0516
23	Apr-00	0.1316	0.0829	0.0487
24	May-00	0.1292	0.0870	0.0422
25	Jun-00	0.1295	0.0836	0.0459
26	Jul-00	0.1317	0.0825	0.0492
27	Aug-00	0.1290	0.0813	0.0477
28	Sep-00	0.1257	0.0823	0.0434
29	Oct-00	0.1260	0.0814	0.0446
30	Nov-00	0.1251	0.0811	0.0440
31	Dec-00	0.1239	0.0784	0.0455
32	Jan-01	0.1261	0.0780	0.0481
33	Feb-01	0.1261	0.0774	0.0487
34	Mar-01	0.1275	0.0768	0.0507

LINE	DATE	DCF	BOND YIELD	RISK PREMIUM
35	Apr-01	0.1227	0.0794	0.0433
36	May-01	0.1302	0.0799	0.0503
37	Jun-01	0.1304	0.0785	0.0519
38	Jul-01	0.1338	0.0778	0.0560
39	Aug-01	0.1327	0.0759	0.0568
40	Sep-01	0.1268	0.0775	0.0493
41	Oct-01	0.1268	0.0763	0.0505
42	Nov-01	0.1268	0.0757	0.0511
43	Dec-01	0.1254	0.0783	0.0471
44	Jan-02	0.1236	0.0766	0.0470
45	Feb-02	0.1241	0.0754	0.0487
46	Mar-02	0.1189	0.0776	0.0413
47	Apr-02	0.1159	0.0757	0.0402
48	May-02	0.1162	0.0752	0.0410
49	Jun-02	0.1170	0.0741	0.0429
50	Jul-02	0.1242	0.0731	0.0511
51	Aug-02	0.1234	0.0717	0.0517
52	Sep-02	0.1260	0.0708	0.0552
53	Oct-02	0.1250	0.0723	0.0527
54	Nov-02	0.1221	0.0714	0.0507
55	Dec-02	0.1216	0.0707	0.0509
56	Jan-03	0.1219	0.0706	0.0513
57	Feb-03	0.1232	0.0693	0.0539
58	Mar-03	0.1195	0.0679	0.0516
59	Apr-03	0.1162	0.0664	0.0498
60	May-03	0.1126	0.0636	0.0490
61	Jun-03	0.1114	0.0621	0.0493
62	Jul-03	0.1127	0.0657	0.0470
63	Aug-03	0.1139	0.0678	0.0461
64	Sep-03	0.1127	0.0656	0.0471
65	Oct-03	0.1123	0.0643	0.0480
66	Nov-03	0.1089	0.0637	0.0452
67	Dec-03	0.1071	0.0627	0.0444
68	Jan-04	0.1059	0.0615	0.0444
69	Feb-04	0.1039	0.0615	0.0424
70	Mar-04	0.1037	0.0597	0.0440
71	Apr-04	0.1041	0.0635	0.0406
72	May-04	0.1045	0.0662	0.0383
73	Jun-04	0.1036	0.0646	0.0390
74	Jul-04	0.1011	0.0627	0.0384
75	Aug-04	0.1008	0.0614	0.0394
76	Sep-04	0.0976	0.0598	0.0378
77	Oct-04	0.0974	0.0594	0.0380
78	Nov-04	0.0962	0.0597	0.0365
79	Dec-04	0.0970	0.0592	0.0378
80	Jan-05	0.0990	0.0578	0.0412
81	Feb-05	0.0979	0.0561	0.0418
82	Mar-05	0.0979	0.0583	0.0396
83	Apr-05	0.0988	0.0564	0.0424
84	May-05	0.0981	0.0553	0.0427
85	Jun-05	0.0976	0.0540	0.0436
86	Jul-05	0.0966	0.0551	0.0415

LINE	DATE	DCF	BOND YIELD	RISK PREMIUM
87	Aug-05	0.0969	0.0550	0.0419
88	Sep-05	0.0980	0.0552	0.0428
89	Oct-05	0.0990	0.0579	0.0411
90	Nov-05	0.1049	0.0588	0.0461
91	Dec-05	0.1045	0.0580	0.0465
92	Jan-06	0.0982	0.0575	0.0407
93	Feb-06	0.1124	0.0582	0.0542
94	Mar-06	0.1127	0.0598	0.0529
95	Apr-06	0.1100	0.0629	0.0471
96	May-06	0.1056	0.0642	0.0414
97	Jun-06	0.1049	0.0640	0.0409
98	Jul-06	0.1087	0.0637	0.0450
99	Aug-06	0.1041	0.0620	0.0421
100	Sep-06	0.1053	0.0600	0.0453
101	Oct-06	0.1030	0.0598	0.0432
102	Nov-06	0.1033	0.0580	0.0453
103	Dec-06	0.1035	0.0581	0.0454
104	Jan-07	0.1013	0.0596	0.0417
105	Feb-07	0.1018	0.0590	0.0428
106	Mar-07	0.1018	0.0585	0.0433
107	Apr-07	0.1007	0.0597	0.0410
108	May-07	0.0967	0.0599	0.0368
109	Jun-07	0.0970	0.0630	0.0340
110	Jul-07	0.1006	0.0625	0.0381
111	Aug-07	0.1021	0.0624	0.0397
112	Sep-07	0.1014	0.0618	0.0396
113	Oct-07	0.1080	0.0611	0.0469
114	Nov-07	0.1083	0.0597	0.0486
115	Dec-07	0.1084	0.0616	0.0468
116	Jan-08	0.1113	0.0602	0.0511
117	Feb-08	0.1139	0.0621	0.0518
118	Mar-08	0.1147	0.0621	0.0526
119	Apr-08	0.1167	0.0629	0.0538
120	May-08	0.1069	0.0627	0.0442
121	Jun-08	0.1062	0.0638	0.0424
122	Jul-08	0.1086	0.0640	0.0446
123	Aug-08	0.1123	0.0637	0.0486
124	Sep-08	0.1130	0.0649	0.0481
125	Oct-08	0.1213	0.0756	0.0457
126	Nov-08	0.1221	0.0760	0.0461
127	Dec-08	0.1162	0.0654	0.0508
128	Jan-09	0.1131	0.0639	0.0492
129	Feb-09	0.1155	0.0630	0.0524
130	Mar-09	0.1198	0.0642	0.0556
131	Apr-09	0.1146	0.0648	0.0498
132	May-09	0.1225	0.0649	0.0576
133	Jun-09	0.1208	0.0620	0.0588
134	Jul-09	0.1145	0.0597	0.0548
135	Aug-09	0.1109	0.0571	0.0538
136	Sep-09	0.1109	0.0553	0.0556
137	Oct-09	0.1146	0.0555	0.0592
138	Nov-09	0.1148	0.0564	0.0584

LINE	DATE	DCF	BOND YIELD	RISK PREMIUM
139	Dec-09	0.1123	0.0579	0.0544
140	Jan-10	0.1198	0.0577	0.0621
141	Feb-10	0.1167	0.0587	0.0580
142	Mar-10	0.1074	0.0584	0.0490
143	Apr-10	0.0934	0.0582	0.0352
144	May-10	0.0970	0.0552	0.0418
145	Jun-10	0.0953	0.0546	0.0407
146	Jul-10	0.1050	0.0526	0.0524
147	Aug-10	0.1038	0.0501	0.0537
148	Sep-10	0.1034	0.0501	0.0533
149	Oct-10	0.1050	0.0510	0.0540
150	Nov-10	0.1041	0.0536	0.0505
151	Dec-10	0.1029	0.0557	0.0472
152	Jan-11	0.1019	0.0557	0.0462
153	Feb-11	0.1004	0.0568	0.0436
154	Mar-11	0.1014	0.0556	0.0458
155	Apr-11	0.1031	0.0555	0.0476
156	May-11	0.1018	0.0532	0.0486
157	Jun-11	0.1020	0.0526	0.0494
158	Jul-11	0.1035	0.0527	0.0508
159	Aug-11	0.1179	0.0469	0.0710
160	Sep-11	0.1155	0.0448	0.0707
161	Oct-11	0.1150	0.0452	0.0698
162	Nov-11	0.1120	0.0425	0.0695
163	Dec-11	0.1092	0.0435	0.0657
164	Jan-12	0.1078	0.0434	0.0644
165	Feb-12	0.1081	0.0436	0.0645
166	Mar-12	0.1081	0.0448	0.0633
167	Apr-12	0.1133	0.0440	0.0693
168	May-12	0.1203	0.0420	0.0783
169	Jun-12	0.1013	0.0408	0.0605
170	Jul-12	0.0978	0.0393	0.0585
171	Aug-12	0.1025	0.0400	0.0625
172	Sep-12	0.1040	0.0402	0.0638
173	Oct-12	0.1011	0.0391	0.0620
174	Nov-12	0.1032	0.0384	0.0648
175	Dec-12	0.1023	0.0400	0.0623
176	Jan-13	0.1013	0.0415	0.0598
177	Feb-13	0.0982	0.0418	0.0564
178	Mar-13	0.1018	0.0420	0.0598
179	Apr-13	0.1001	0.0400	0.0601
180	May-13	0.1000	0.0417	0.0583
181	Jun-13	0.1000	0.0453	0.0547
182	Jul-13	0.0983	0.0468	0.0515
183	Aug-13	0.0982	0.0473	0.0509
184	Sep-13	0.0991	0.0480	0.0511
185	Oct-13	0.0998	0.0470	0.0528
186	Nov-13	0.0964	0.0477	0.0487
187	Dec-13	0.0966	0.0481	0.0485
188	Jan-14	0.0948	0.0463	0.0485
189	Feb-14	0.1019	0.0453	0.0566
190	Mar-14	0.1027	0.0451	0.0576

LINE	DATE	DCF	BOND YIELD	RISK PREMIUM
191	Apr-14	0.1081	0.0441	0.0640
192	May-14	0.1069	0.0426	0.0643
193	Jun-14	0.1059	0.0429	0.0630
194	Jul-14	0.1075	0.0423	0.0652
195	Aug-14	0.1069	0.0413	0.0656
196	Sep-14	0.1058	0.0424	0.0634
197	Oct-14	0.1131	0.0406	0.0725
198	Nov-14	0.1113	0.0409	0.0704
199	Dec-14	0.1105	0.0395	0.0710
200	Jan-15	0.1043	0.0358	0.0685
201	Feb-15	0.1043	0.0367	0.0676
202	Mar-15	0.1062	0.0374	0.0688
203	Apr-15	0.1072	0.0375	0.0697
204	May-15	0.1067	0.0417	0.0650
205	Jun-15	0.1020	0.0439	0.0581
206	Jul-15	0.0974	0.0440	0.0534
207	Aug-15	0.0949	0.0425	0.0524
208	Sep-15	0.0975	0.0439	0.0536
209	Oct-15	0.0961	0.0429	0.0532
210	Nov-15	0.1007	0.0440	0.0567
211	Dec-15	0.1027	0.0435	0.0592
212	Jan-16	0.1017	0.0427	0.0590
213	Feb-16	0.1002	0.0411	0.0591
214	Mar-16	0.0973	0.0416	0.0557
215	Apr-16	0.0974	0.0400	0.0574
216	May-16	0.0944	0.0393	0.0551
217	Jun-16	0.0963	0.0378	0.0585
218	Jul-16	0.0952	0.0357	0.0595
219	Aug-16	0.0971	0.0359	0.0612
220	Sep-16	0.0978	0.0366	0.0612
221	Oct-16	0.0990	0.0377	0.0613
222	Nov-16	0.1041	0.0408	0.0633
223	Dec-16	0.1032	0.0427	0.0605
224	Jan-17	0.1021	0.0414	0.0607
225	Feb-17	0.0991	0.0418	0.0573
226	Mar-17	0.0983	0.0423	0.0560
227	Apr-17	0.0975	0.0412	0.0563
228	May-17	0.0984	0.0412	0.0572
229	Jun-17	0.0968	0.0394	0.0574
230	Jul-17	0.0975	0.0399	0.0576
231	Aug-17	0.0955	0.0386	0.0569
232	Sep-17	0.0957	0.0387	0.0570
233	Oct-17	0.0975	0.0391	0.0584
234	Nov-17	0.0975	0.0383	0.0592
235	Dec-17	0.0915	0.0379	0.0536
236	Jan-18	0.0938	0.0386	0.0552

Notes: A-rated utility bond yield information from the Mergent Bond Record. DCF results are calculated using a quarterly DCF model as follows:

D_0	=	Latest quarterly dividend per *Value Line* and Yahoo Finance.
P_0	=	Average of the monthly high and low stock prices for each month from Thomson Reuters.
FC	=	Flotation costs expressed as a percent of gross proceeds.
g	=	I/B/E/S forecast of future earnings growth for each month.
k	=	Cost of equity using the quarterly version of the DCF model shown by the formula below:

$$k = \left[\frac{d_0 (1+g)^{\frac{1}{4}}}{P_0 (1-FC)} + (1+g)^{\frac{1}{4}} \right]^4 - 1$$

My estimate of the ex ante risk premium on an investment in my proxy natural gas utility group as compared to an investment in A-rated utility bonds is given by the equation:

RP_{PROXY}	=	8.61 -	.600 x I_A.
		(14.87)	(-6.31) [1]

Using the forecast 5.9 percent yield to maturity on A-rated utility bonds, the regression equation produces an ex ante risk premium based on the proxy group equal to 5.1 percent (8.61 – .60 x 5.9 = 5.1). Adding an estimated risk premium of 5.1 percent to the 5.9 percent forecasted yield to maturity on A-rated utility bonds produces a cost of equity estimate of 11.0 percent for the electric company proxy group using the ex ante risk premium method.

1	Constant coefficient			8.61%
2	Bond coefficient			(0.600)
3	Forecast bond yield =			5.9%
4	Bond coefficient x Bond yield =			(0.035)
5	Ex Ante Risk Premium			5.07%
6	Forecast bond yield =			5.9%
7	Ex Ante Risk Premium Cost of Equity =			11.0%

Forecast utility bond yield from Value Line and EIA. Value Line Selection & Opinion (Dec. 1, 2017) projects a AAA-rated Corporate bond yield equal to 5.2 percent. The average spread between A-rated utility bonds and Aaa-rated Corporate bonds is 31 basis points (A-rated utility, 3.86 percent, less Aaa-rated Corporate, 3.55 percent, equals 31 basis points). Adding 31 basis points to the 5.2 percent Value Line Aaa Corporate bond forecast equals a forecast yield of 5.51 percent for the A-rated utility bonds. The EIA (Annual Energy Outlook released Feb. 6, 2018) forecasts an AA-rated utility bond yield equal to 6.11 percent. The average spread between AA-rated utility and A-rated utility bonds is 17 basis points (3.86 percent less 3.69 percent). Adding 17 basis points to EIA's 6.11 percent AA-utility bond yield forecast equals a forecast yield for A-rated utility bonds equal to 6.28 percent. The average of the forecasts (5.51 percent using Value Line data and 6.28 percent using EIA data) is 5.9 percent.

1 The t-statistics are shown in parentheses.

ATMOS ENERGY
EXHIBIT__(JVW-1)
REBUTTAL SCHEDULE 4
COMPARATIVE RETURNS ON S&P 500 STOCK INDEX
AND MOODY'S A-RATED BONDS 1937 – 2018

LINE	YEAR	S&P 500 STOCK PRICE	STOCK DIVIDEND YIELD	STOCK RETURN	A-RATED BOND PRICE	BOND RETURN	RISK PREMIUM
1	2018	2,789.80	0.0198		$102.46		
2	2017	2,275.12	0.0209	24.71%	$96.13	10.75%	13.97%
3	2016	1,918.60	0.0222	20.80%	$95.48	4.87%	15.93%
4	2015	2,028.18	0.0208	-3.32%	$107.65	-7.59%	4.26%
5	2014	1,822.36	0.0210	13.39%	$89.89	24.20%	-10.81%
6	2013	1,481.11	0.0220	25.24%	$97.45	-3.65%	28.89%
7	2012	1,300.58	0.0214	16.02%	$94.36	7.52%	8.50%
8	2011	1,282.62	0.0185	3.25%	$77.36	27.14%	-23.89%
9	2010	1,123.58	0.0203	16.18%	$75.02	8.44%	7.74%
10	2009	865.58	0.0310	32.91%	$68.43	15.48%	17.43%
11	2008	1,378.76	0.0206	-35.16%	$72.25	0.24%	-35.40%
12	2007	1,424.16	0.0181	-1.38%	$72.91	4.59%	-5.97%
13	2006	1,278.72	0.0183	13.20%	$75.25	2.20%	11.01%
14	2005	1,181.41	0.0177	10.01%	$74.91	5.80%	4.21%
15	2004	1,132.52	0.0162	5.94%	$70.87	11.34%	-5.40%
16	2003	895.84	0.0180	28.22%	$62.26	20.27%	7.95%
17	2002	1,140.21	0.0138	-20.05%	$57.44	15.35%	-35.40%
18	2001	1,335.63	0.0116	-13.47%	$56.40	8.93%	-22.40%
19	2000	1,425.59	0.0118	-5.13%	$52.60	14.82%	-19.95%
20	1999	1,248.77	0.0130	15.46%	$63.03	-10.20%	25.66%
21	1998	963.35	0.0162	31.25%	$62.43	7.38%	23.87%
22	1997	766.22	0.0195	27.68%	$56.62	17.32%	10.36%
23	1996	614.42	0.0231	27.02%	$60.91	-0.48%	27.49%
24	1995	465.25	0.0287	34.93%	$50.22	29.26%	5.68%
25	1994	472.99	0.0269	1.05%	$60.01	-9.65%	10.71%
26	1993	435.23	0.0288	11.56%	$53.13	20.48%	-8.93%
27	1992	416.08	0.0290	7.50%	$49.56	15.27%	-7.77%
28	1991	325.49	0.0382	31.65%	$44.84	19.44%	12.21%
29	1990	339.97	0.0341	-0.85%	$45.60	7.11%	-7.96%
30	1989	285.41	0.0364	22.76%	$43.06	15.18%	7.58%
31	1988	250.48	0.0366	17.61%	$40.10	17.36%	0.25%
32	1987	264.51	0.0317	-2.13%	$48.92	-9.84%	7.71%
33	1986	208.19	0.0390	30.95%	$39.98	32.36%	-1.41%
34	1985	171.61	0.0451	25.83%	$32.57	35.05%	-9.22%
35	1984	166.39	0.0427	7.41%	$31.49	16.12%	-8.72%
36	1983	144.27	0.0479	20.12%	$29.41	20.65%	-0.53%
37	1982	117.28	0.0595	28.96%	$24.48	36.48%	-7.51%
38	1981	132.97	0.0480	-7.00%	$29.37	-3.01%	-3.99%
39	1980	110.87	0.0541	25.34%	$34.69	-3.81%	29.16%

LINE	YEAR	S&P 500 STOCK PRICE	STOCK DIVIDEND YIELD	STOCK RETURN	A-RATED BOND PRICE	BOND RETURN	RISK PREMIUM
40	1979	99.71	0.0533	16.52%	$43.91	-11.89%	28.41%
41	1978	90.25	0.0532	15.80%	$49.09	-2.40%	18.20%
42	1977	103.80	0.0399	-9.06%	$50.95	4.20%	-13.27%
43	1976	96.86	0.0380	10.96%	$43.91	25.13%	-14.17%
44	1975	72.56	0.0507	38.56%	$41.76	14.75%	23.81%
45	1974	96.11	0.0364	-20.86%	$52.54	-12.91%	-7.96%
46	1973	118.40	0.0269	-16.14%	$58.51	-3.37%	-12.77%
47	1972	103.30	0.0296	17.58%	$56.47	10.69%	6.89%
48	1971	93.49	0.0332	13.81%	$53.93	12.13%	1.69%
49	1970	90.31	0.0356	7.08%	$50.46	14.81%	-7.73%
50	1969	102.00	0.0306	-8.40%	$62.43	-12.76%	4.36%
51	1968	95.04	0.0313	10.45%	$66.97	-0.81%	11.26%
52	1967	84.45	0.0351	16.05%	$78.69	-9.81%	25.86%
53	1966	93.32	0.0302	-6.48%	$86.57	-4.48%	-2.00%
54	1965	86.12	0.0299	11.35%	$91.40	-0.91%	12.26%
55	1964	76.45	0.0305	15.70%	$92.01	3.68%	12.02%
56	1963	65.06	0.0331	20.82%	$93.56	2.61%	18.20%
57	1962	69.07	0.0297	-2.84%	$89.60	8.89%	-11.73%
58	1961	59.72	0.0328	18.94%	$89.74	4.29%	14.64%
59	1960	58.03	0.0327	6.18%	$84.36	11.13%	-4.95%
60	1959	55.62	0.0324	7.57%	$91.55	-3.49%	11.06%
61	1958	41.12	0.0448	39.74%	$101.22	-5.60%	45.35%
62	1957	45.43	0.0431	-5.18%	$100.70	4.49%	-9.67%
63	1956	44.15	0.0424	7.14%	$113.00	-7.35%	14.49%
64	1955	35.60	0.0438	28.40%	$116.77	0.20%	28.20%
65	1954	25.46	0.0569	45.52%	$112.79	7.07%	38.45%
66	1953	26.18	0.0545	2.70%	$114.24	2.24%	0.46%
67	1952	24.19	0.0582	14.05%	$113.41	4.26%	9.79%
68	1951	21.21	0.0634	20.39%	$123.44	-4.89%	25.28%
69	1950	16.88	0.0665	32.30%	$125.08	1.89%	30.41%
70	1949	15.36	0.0620	16.10%	$119.82	7.72%	8.37%
71	1948	14.83	0.0571	9.28%	$118.50	4.49%	4.79%
72	1947	15.21	0.0449	1.99%	$126.02	-2.79%	4.79%
73	1946	18.02	0.0356	-12.03%	$126.74	2.59%	-14.63%
74	1945	13.49	0.0460	38.18%	$119.82	9.11%	29.07%
75	1944	11.85	0.0495	18.79%	$119.82	3.34%	15.45%
76	1943	10.09	0.0554	22.98%	$118.50	4.49%	18.49%
77	1942	8.93	0.0788	20.87%	$117.63	4.14%	16.73%
78	1941	10.55	0.0638	-8.98%	$116.34	4.55%	-13.52%
79	1940	12.30	0.0458	-9.65%	$112.39	7.08%	-16.73%
80	1939	12.50	0.0349	1.89%	$105.75	10.05%	-8.16%
81	1938	11.31	0.0784	18.36%	$99.83	9.94%	8.42%
82	1937	17.59	0.0434	-31.36%	$103.18	0.63%	-31.99%
83	Average			11.4%		6.7%	4.7%

Note: See Appendix 5 for an explanation of how stock and bond returns are derived and the source of the data presented.

ATMOS ENERGY
EXHIBIT__(JVW-1)
REBUTTAL SCHEDULE 5
COMPARATIVE RETURNS ON S&P UTILITY STOCK INDEX AND MOODY'S A-RATED BONDS 1937 – 2018

LINE	YEAR	S&P UTILITY STOCK PRICE	STOCK DIVIDEND YIELD	STOCK RETURN	A-RATED BOND PRICE	BOND RETURN	RISK PREMIUM
1	2018				$102.46		
2	2017			11.72%	$96.13	10.75%	0.97%
3	2016			17.44%	$95.48	4.87%	12.57%
4	2015			-3.90%	$107.65	-7.59%	3.69%
5	2014			28.91%	$89.89	24.20%	4.71%
6	2013			13.01%	$97.45	-3.65%	16.66%
7	2012			2.09%	$94.36	7.52%	-5.43%
8	2011			19.99%	$77.36	27.14%	-7.15%
9	2010			7.04%	$75.02	8.44%	-1.40%
10	2009			10.71%	$68.43	15.48%	-4.77%
11	2008			-25.90%	$72.25	0.24%	-26.14%
12	2007			16.56%	$72.91	4.59%	11.96%
13	2006			20.76%	$75.25	2.20%	18.56%
14	2005			16.05%	$74.91	5.80%	10.25%
16	2003			23.48%	$62.26	20.27%	3.21%
17	2002	243.79	0.0362		$57.44		
18	2001	307.70	0.0287	-17.90%	$56.40	8.93%	-26.83%
19	2000	239.17	0.0413	32.78%	$52.60	14.82%	17.96%
20	1999	253.52	0.0394	-1.72%	$63.03	-10.20%	8.48%
21	1998	228.61	0.0457	15.47%	$62.43	7.38%	8.09%
22	1997	201.14	0.0492	18.58%	$56.62	17.32%	1.26%
23	1996	202.57	0.0454	3.83%	$60.91	-0.48%	4.31%
24	1995	153.87	0.0584	37.49%	$50.22	29.26%	8.23%
25	1994	168.70	0.0496	-3.83%	$60.01	-9.65%	5.82%
26	1993	159.79	0.0537	10.95%	$53.13	20.48%	-9.54%
27	1992	149.70	0.0572	12.46%	$49.56	15.27%	-2.81%
28	1991	138.38	0.0607	14.25%	$44.84	19.44%	-5.19%
29	1990	146.04	0.0558	0.33%	$45.60	7.11%	-6.78%
30	1989	114.37	0.0699	34.68%	$43.06	15.18%	19.51%
31	1988	106.13	0.0704	14.80%	$40.10	17.36%	-2.55%
32	1987	120.09	0.0588	-5.74%	$48.92	-9.84%	4.10%
33	1986	92.06	0.0742	37.87%	$39.98	32.36%	5.51%
34	1985	75.83	0.0860	30.00%	$32.57	35.05%	-5.04%
35	1984	68.50	0.0925	19.95%	$31.49	16.12%	3.83%
36	1983	61.89	0.0948	20.16%	$29.41	20.65%	-0.49%
37	1982	51.81	0.1074	30.20%	$24.48	36.48%	-6.28%
38	1981	52.01	0.0978	9.40%	$29.37	-3.01%	12.41%
39	1980	50.26	0.0953	13.01%	$34.69	-3.81%	16.83%
40	1979	50.33	0.0893	8.79%	$43.91	-11.89%	20.68%
41	1978	52.40	0.0791	3.96%	$49.09	-2.40%	6.36%
42	1977	54.01	0.0714	4.16%	$50.95	4.20%	-0.04%
43	1976	46.99	0.0776	22.70%	$43.91	25.13%	-2.43%
44	1975	38.19	0.0920	32.24%	$41.76	14.75%	17.49%
45	1974	48.60	0.0713	-14.29%	$52.54	-12.91%	-1.38%

LINE	YEAR	S&P UTILITY STOCK PRICE	STOCK DIVIDEND YIELD	STOCK RETURN	A-RATED BOND PRICE	BOND RETURN	RISK PREMIUM
46	1973	60.01	0.0556	-13.45%	$58.51	-3.37%	-10.08%
47	1972	60.19	0.0542	5.12%	$56.47	10.69%	-5.57%
48	1971	63.43	0.0504	-0.07%	$53.93	12.13%	-12.19%
49	1970	55.72	0.0561	19.45%	$50.46	14.81%	4.64%
50	1969	68.65	0.0445	-14.38%	$62.43	-12.76%	-1.62%
51	1968	68.02	0.0435	5.28%	$66.97	-0.81%	6.08%
52	1967	70.63	0.0392	0.22%	$78.69	-9.81%	10.03%
53	1966	74.50	0.0347	-1.72%	$86.57	-4.48%	2.76%
54	1965	75.87	0.0315	1.34%	$91.40	-0.91%	2.25%
55	1964	67.26	0.0331	16.11%	$92.01	3.68%	12.43%
56	1963	63.35	0.0330	9.47%	$93.56	2.61%	6.86%
57	1962	62.69	0.0320	4.25%	$89.60	8.89%	-4.64%
58	1961	52.73	0.0358	22.47%	$89.74	4.29%	18.18%
59	1960	44.50	0.0403	22.52%	$84.36	11.13%	11.39%
60	1959	43.96	0.0377	5.00%	$91.55	-3.49%	8.49%
61	1958	33.30	0.0487	36.88%	$101.22	-5.60%	42.48%
62	1957	32.32	0.0487	7.90%	$100.70	4.49%	3.41%
63	1956	31.55	0.0472	7.16%	$113.00	-7.35%	14.51%
64	1955	29.89	0.0461	10.16%	$116.77	0.20%	9.97%
65	1954	25.51	0.0520	22.37%	$112.79	7.07%	15.30%
66	1953	24.41	0.0511	9.62%	$114.24	2.24%	7.38%
67	1952	22.22	0.0550	15.36%	$113.41	4.26%	11.10%
68	1951	20.01	0.0606	17.10%	$123.44	-4.89%	21.99%
69	1950	20.20	0.0554	4.60%	$125.08	1.89%	2.71%
70	1949	16.54	0.0570	27.83%	$119.82	7.72%	20.10%
71	1948	16.53	0.0535	5.41%	$118.50	4.49%	0.92%
72	1947	19.21	0.0354	-10.41%	$126.02	-2.79%	-7.62%
73	1946	21.34	0.0298	-7.00%	$126.74	2.59%	-9.59%
74	1945	13.91	0.0448	57.89%	$119.82	9.11%	48.79%
75	1944	12.10	0.0569	20.65%	$119.82	3.34%	17.31%
76	1943	9.22	0.0621	37.45%	$118.50	4.49%	32.96%
77	1942	8.54	0.0940	17.36%	$117.63	4.14%	13.22%
78	1941	13.25	0.0717	-28.38%	$116.34	4.55%	-32.92%
79	1940	16.97	0.0540	-16.52%	$112.39	7.08%	-23.60%
80	1939	16.05	0.0553	11.26%	$105.75	10.05%	1.21%
81	1938	14.30	0.0730	19.54%	$99.83	9.94%	9.59%
82	1937	24.34	0.0432	-36.93%	$103.18	0.63%	-37.55%
83	Average			10.6%		6.7%	4.0%

See Appendix 5 for an explanation of how stock and bond returns are derived and the source of the data presented. Standard & Poor's discontinued its S&P Utilities Index in December 2001 and replaced its utilities stock index with separate indices for electric and natural gas utilities. In this study, the stock returns beginning in 2002 are based on the total returns for the EEI Index of U.S. shareholder-owned electric utilities, as reported by EEI on its website. http://www.eei.org/whatwedo/DataAnalysis/IndusFinanAnalysis/Pages/QtrlyFinancialUpdates.aspx

ATMOS ENERGY
EXHIBIT__(JVW-1)
REBUTTAL SCHEDULE 6
USING THE ARITHMETIC MEAN TO ESTIMATE
THE COST OF EQUITY CAPITAL

Consider an investment that in a given year generates a return of 30 percent with probability equal to .5 and a return of -10 percent with a probability equal to .5. For each one dollar invested, the possible outcomes of this investment at the end of year one are:

ENDING WEALTH	PROBABILITY
\$1.30	0.50
\$0.90	0.50

At the end of year two, the possible outcomes are:

ENDING WEALTH			PROBABILITY	VALUE X PROBABILITY
(1.30) (1.30)	=	\$1.69	0.25	0.4225
(1.30) (.9)	=	\$1.17	0.50	0.5850
(.9) (.9)	=	\$0.81	0.25	0.2025
Expected Wealth	=			\$1.21

The expected value of this investment at the end of year two is \$1.21. In a competitive capital market, the cost of equity is equal to the expected rate of return on an investment. In the above example, the cost of equity is that rate of return which will make the initial investment of one dollar grow to the expected value of \$1.21 at the end of two years. Thus, the cost of equity is the solution to the equation:

$$1(1+k)^2 = 1.21 \text{ or}$$

$$k = (1.21/1)^{.5} - 1 = 10\%.$$

The arithmetic mean of this investment is:

$$(30\%)\ (.5) + (-10\%)\ (.5) = 10\%.$$

Thus, the arithmetic mean is equal to the cost of equity capital.

The geometric mean of this investment is:

$$[(1.3)\ (.9)]^{.5} - 1 = .082 = 8.2\%.$$

Thus, the geometric mean is not equal to the cost of equity capital.

The lesson is obvious: for an investment with an uncertain outcome, the arithmetic mean is the best measure of the cost of equity capital.

ATMOS ENERGY
EXHIBIT__(JVW-1)
SCHEDULE 7
CALCULATION OF CAPITAL ASSET PRICING MODEL COST OF EQUITY
USING THE IBBOTSON® SBBI® 6.9 PERCENT RISK PREMIUM

LINE	COMPANY	VALUE LINE BETA	RISK-FREE RATE	MARKET RISK PREMIUM	BETA X RISK PREMIUM	CAPM RESULT	MARKET CAP $ (MIL)	SIZE PREMIUM	SIZE-ADJUSTED CAPM
1	Atmos Energy	0.70	4.0%	6.9%	4.86%	9.0%	8,953	1.02%	10.1%
2	Chesapeake Utilities	0.70	4.0%	6.9%	4.86%	9.0%	1,136	1.75%	10.8%
3	New Jersey Resources	0.80	4.0%	6.9%	5.55%	9.7%	3,377	1.02%	10.8%
4	NiSource Inc.	0.60	4.0%	6.9%	4.16%	8.3%	8,076	1.02%	9.4%
5	Northwest Nat. Gas	0.70	4.0%	6.9%	4.86%	9.0%	1,650	1.75%	10.8%
6	ONE Gas Inc.	0.70	4.0%	6.9%	4.86%	9.0%	3,617	1.02%	10.1%
7	South Jersey Inds.	0.85	4.0%	6.9%	5.90%	10.1%	2,347	1.75%	11.8%
8	Southwest Gas	0.80	4.0%	6.9%	5.55%	9.7%	3,537	1.02%	10.8%
9	Spire Inc.	0.70	4.0%	6.9%	4.86%	9.0%	3,291	1.02%	10.1%
10	UGI Corp.	0.90	4.0%	6.9%	6.25%	10.4%	8,020	1.02%	11.4%
11	Historical CAPM Model Results					9.4%			10.6%
12	Historical Beta equal to 0.88	0.88	4.0%	6.9%	6.11%	10.3%			

	NOTES			
	Estimates of Premiums for Company Size			
	Decile	Smallest Mkt. Cap. ($Millions)	Largest Mkt. Cap. ($Millions)	Premium
	Large-Cap (No Adjustment)	10,712.000		0
	Mid-Cap (3-5)	2,392.689	10,711.194	1.02%
	Low-Cap (6-8)	569.279	2,390.899	1.75%
	Micro-Cap (9-10)	2.516	567.843	3.67%

	Risk-Free Rate	4.0%	Forecast Yield On Long-Term U.S. Treasury Bonds			
	Market Risk Premium	6.9%	Ibbotson			
	Flotation - Natural Gas Utilities	0.14%				

Estimates of size premia from *2017 Valuation Handbook, Guide to Cost of Capital, Market Results Through 2016*, Duff & Phelps, John Wiley & Sons, Inc., Appendix 3. Ibbotson® SBBI® risk premium; Value Line beta for comparable companies from Value Line Investment Analyzer. Historical 0.88 beta determined from ratio of Utility stock returns to market returns over the period 1936 to 2018. Forecast bond yield from Value Line and EIA. Value Line forecasts a yield on 10-year Treasury notes equal to 3.6 percent. The spread between the average yield on 10-year Treasury notes (2.58 percent) and 20-year Treasury bonds (2.73 percent) is 15 basis points. Adding 15 basis points to Value Line's 3.6 percent forecasted yield on 10-year Treasury notes produces a forecasted yield of 3.75 percent for 20-year Treasury bonds (see Value Line Investment Survey, Selection & Opinion, Dec. 1, 2017). EIA (Annual Energy Outlook, release Feb. 6, 2018) forecasts a yield of 4.07 percent on 10-year Treasury notes. Adding the 15 basis point spread between 10-year Treasury notes and 20-year Treasury bonds to the EIA forecast of 4.07 percent for 10-year Treasury notes produces an EIA forecast for 20-year Treasury bonds equal to 4.22 percent. The average of the forecasts is 4.0 percent (3.75 percent using Value Line data and 4.22 percent using EIA data).

ATMOS ENERGY
EXHIBIT__(JVW-1)
REBUTTAL SCHEDULE 8
COMPARISON OF RISK PREMIUMS ON S&P500 AND S&P UTILITIES 1937 – 2018

YEAR	S&P UTILITIES STOCK RETURN	SP500 STOCK RETURN	10-YR. TREASURY BOND YIELD	UTILITIES RISK PREMIUM	MARKET RISK PREMIUM
2017	0.1172	0.2471	0.0233	0.0939	0.2238
2016	0.1744	0.2080	0.0184	0.1560	0.1896
2015	-0.0390	-0.0332	0.0214	-0.0604	-0.0546
2014	0.2891	0.1339	0.0254	0.2637	0.1085
2013	0.1301	0.2524	0.0235	0.1066	0.2289
2012	0.0209	0.1602	0.0180	0.0029	0.1422
2011	0.1999	0.0325	0.0278	0.1721	0.0047
2010	0.0704	0.1618	0.0322	0.0382	0.1296
2009	0.1071	0.3291	0.0326	0.0745	0.2965
2008	-0.2590	-0.3516	0.0367	-0.2957	-0.3883
2007	0.1656	-0.0138	0.0463	0.1193	-0.0601
2006	0.2076	0.1320	0.0479	0.1597	0.0841
2005	0.1605	0.1001	0.0429	0.1176	0.0572
2004	0.2284	0.0594	0.0427	0.1857	0.0167
2003	0.2348	0.2822	0.0401	0.1947	0.2421
2002	-0.1473	-0.2005	0.0461	-0.1934	-0.2466
2001	-0.1790	-0.1347	0.0502	-0.2292	-0.1849
2000	0.3278	-0.0513	0.0603	0.2675	-0.1116
1999	-0.0172	0.1546	0.0564	-0.0736	0.0982
1998	0.1547	0.3125	0.0526	0.1021	0.2599
1997	0.1858	0.2768	0.0635	0.1223	0.2133
1996	0.0383	0.2702	0.0644	-0.0261	0.2058
1995	0.3749	0.3493	0.0658	0.3091	0.2835
1994	-0.0383	0.0105	0.0708	-0.1091	-0.0603
1993	0.1095	0.1156	0.0587	0.0508	0.0569
1992	0.1246	0.0750	0.0701	0.0545	0.0049
1991	0.1425	0.3165	0.0786	0.0639	0.2379
1990	0.0033	-0.0085	0.0855	-0.0822	-0.0940
1989	0.3468	0.2276	0.0850	0.2618	0.1426
1988	0.1480	0.1761	0.0884	0.0596	0.0877
1987	-0.0574	-0.0213	0.0838	-0.1412	-0.1051
1986	0.3787	0.3095	0.0768	0.3019	0.2327
1985	0.3000	0.2583	0.1062	0.1938	0.1521
1984	0.1995	0.0741	0.1244	0.0751	-0.0503
1983	0.2016	0.2012	0.1110	0.0906	0.0902
1982	0.3020	0.2896	0.1300	0.1720	0.1596
1981	0.0940	-0.0700	0.1391	-0.0451	-0.2091

YEAR	S&P UTILITIES STOCK RETURN	SP500 STOCK RETURN	10-YR. TREASURY BOND YIELD	UTILITIES RISK PREMIUM	MARKET RISK PREMIUM
1980	0.1301	0.2534	0.1146	0.0155	0.1388
1979	0.0879	0.1652	0.0944	-0.0065	0.0708
1978	0.0396	0.1580	0.0841	-0.0445	0.0739
1977	0.0416	-0.0906	0.0742	-0.0326	-0.1648
1976	0.2270	0.1096	0.0761	0.1509	0.0335
1975	0.3224	0.3856	0.0799	0.2425	0.3057
1974	-0.1429	-0.2086	0.0756	-0.2185	-0.2842
1973	-0.1345	-0.1614	0.0684	-0.2029	-0.2298
1972	0.0512	0.1758	0.0621	-0.0109	0.1137
1971	-0.0007	0.1381	0.0616	-0.0623	0.0765
1970	0.1945	0.0708	0.0735	0.1210	-0.0027
1969	-0.1438	-0.0840	0.0667	-0.2105	-0.1507
1968	0.0528	0.1045	0.0565	-0.0037	0.0480
1967	0.0022	0.1605	0.0507	-0.0485	0.1098
1966	-0.0172	-0.0648	0.0492	-0.0664	-0.1140
1965	0.0134	0.1135	0.0428	-0.0294	0.0707
1964	0.1611	0.1570	0.0419	0.1192	0.1151
1963	0.0947	0.2082	0.0400	0.0547	0.1682
1962	0.0425	-0.0284	0.0395	0.0030	-0.0679
1961	0.2247	0.1894	0.0388	0.1859	0.1506
1960	0.2252	0.0618	0.0412	0.1840	0.0206
1959	0.0500	0.0757	0.0433	0.0067	0.0324
1958	0.3688	0.3974	0.0332	0.3356	0.3642
1957	0.0790	-0.0518	0.0365	0.0425	-0.0883
1956	0.0716	0.0714	0.0318	0.0398	0.0396
1955	0.1016	0.2840	0.0282	0.0734	0.2558
1954	0.2237	0.4552	0.0240	0.1997	0.4312
1953	0.0962	0.0270	0.0281	0.0681	-0.0011
1952	0.1536	0.1405	0.0248	0.1288	0.1157
1951	0.1710	0.2039	0.0241	0.1469	0.1798
1950	0.0460	0.3230	0.0205	0.0255	0.3025
1949	0.2783	0.1610	0.0193	0.2590	0.1417
1948	0.0541	0.0928	0.0215	0.0326	0.0713
1947	-0.1041	0.0199	0.0185	-0.1226	0.0014
1946	-0.0700	-0.1203	0.0174	-0.0874	-0.1377
1945	0.5789	0.3818	0.0173	0.5616	0.3645
1944	0.2065	0.1879	0.0209	0.1856	0.1670
1943	0.3745	0.2298	0.0207	0.3538	0.2091
1942	0.1736	0.2087	0.0211	0.1525	0.1876
1941	-0.2838	-0.0898	0.0199	-0.3037	-0.1097
1940	-0.1652	-0.0965	0.0220	-0.1872	-0.1185
1939	0.1126	0.0189	0.0235	0.0891	-0.0046
1938	0.1954	0.1836	0.0255	0.1699	0.1581
1937	-0.3693	-0.3136	0.0269	-0.3962	-0.3405

YEAR	S&P UTILITIES STOCK RETURN	SP500 STOCK RETURN	10-YR. TREASURY BOND YIELD	UTILITIES RISK PREMIUM	MARKET RISK PREMIUM
Risk Premium 1937 to 2018				0.0552	0.0628
RP Utilities/RP SP500				0.88	

ATMOS ENERGY
EXHIBIT__(JVW-1)
REBUTTAL SCHEDULE 9
CALCULATION OF CAPITAL ASSET PRICING MODEL COST OF EQUITY
USING DCF ESTIMATE OF THE EXPECTED RATE OF RETURN
ON THE MARKET PORTFOLIO

LINE	COMPANY	VALUE LINE BETA	RISK-FREE RATE	DCF S&P 500	MARKET RISK PREMIUM	BETA X RISK PREMIUM	CAPM COST OF EQUITY
1	Atmos Energy	0.70	4.0%	12.8%	8.8%	6.13%	10.3%
2	Chesapeake Utilities	0.70	4.0%	12.8%	8.8%	6.13%	10.3%
3	New Jersey Resources	0.80	4.0%	12.8%	8.8%	7.01%	11.2%
4	NiSource Inc.	0.60	4.0%	12.8%	8.8%	5.26%	9.4%
5	Northwest Nat. Gas	0.70	4.0%	12.8%	8.8%	6.13%	10.3%
6	ONE Gas Inc.	0.70	4.0%	12.8%	8.8%	6.13%	10.3%
7	South Jersey Inds.	0.85	4.0%	12.8%	8.8%	7.45%	11.6%
8	Southwest Gas	0.80	4.0%	12.8%	8.8%	7.01%	11.2%
9	Spire Inc.	0.70	4.0%	12.8%	8.8%	6.13%	10.3%
10	UGI Corp.	0.90	4.0%	12.8%	8.8%	7.88%	12.1%
11	DCF CAPM Result						10.7%
	Beta Equal to 0.88						
12	DCF CAPM Result	0.88	4.0%	12.8%	8.8%	7.71%	11.9%

Value Line beta for comparable companies from Value Line Investment Analyzer. Forecast bond yield from Value Line and EIA. Value Line forecasts a yield on 10-year Treasury notes equal to 3.6 percent. The spread between the average yield on 10-year Treasury notes (2.40 percent) and 20-year Treasury bonds (2.60 percent) is 20 basis points. Adding 20 basis points to Value Line's 3.6 percent forecasted yield on 10-year Treasury notes produces a forecasted yield of 3.8 percent for 20-year Treasury bonds (see Value Line Investment Survey, Selection & Opinion, Dec. 1, 2017). EIA forecasts a yield of 3.75 percent on 10-year Treasury notes. Adding the 20 basis point spread between 10-year Treasury notes and 20-year Treasury bonds to the EIA forecast of 3.75 percent for 10-year Treasury notes produces an EIA forecast for 20-year Treasury bonds equal to 3.95 percent. The average of the forecasts is 3.9 percent (3.8 percent using Value Line data and 4.0 percent using EIA data).

ATMOS ENERGY
EXHIBIT__(JVW-1)
REBUTTAL SCHEDULE 9 (CONTINUED)
CALCULATION OF CAPITAL ASSET PRICING MODEL COST OF EQUITY
USING DCF ESTIMATE OF THE EXPECTED RATE OF RETURN
ON THE MARKET PORTFOLIO
SUMMARY OF DISCOUNTED CASH FLOW ANALYSIS FOR S&P 500 COMPANIES

	COMPANY	STOCK PRICE (P_0)	D_0	FORECAST OF FUTURE EARNINGS GROWTH	MODEL RESULT	MARKET CAP $ (MILS)
1	3M	240.10	5.44	10.10%	12.6%	146,288
2	ABBOTT LABORATORIES	57.44	1.12	11.92%	14.1%	102,817
3	ACCENTURE CLASS A	151.61	2.66	9.90%	11.8%	99,247
4	ACTIVISION BLIZZARD	65.02	0.30	15.28%	15.8%	52,776
5	AETNA	183.06	2.00	11.32%	12.5%	60,488
6	AFFILIATED MANAGERS	198.92	1.20	14.92%	15.6%	11,412
7	ALLIANCE DATA SYSTEMS	244.33	2.28	13.95%	15.0%	14,140
8	AMERICAN EXPRESS	97.73	1.40	9.98%	11.6%	86,678
9	ANTHEM	232.46	3.00	12.75%	14.2%	64,100
10	AON CLASS A	138.90	1.44	12.79%	14.0%	33,756
11	APPLE	171.66	2.52	11.16%	12.8%	920,376
12	ARTHUR J GALLAGHER	65.39	1.64	12.00%	14.8%	11,577
13	AT&T	36.66	2.00	8.04%	14.1%	228,064
14	AUTOMATIC DATA PROC.	116.39	2.52	10.77%	13.2%	53,618
15	AVERY DENNISON	114.48	1.80	13.20%	15.0%	10,620
16	BALL	39.75	0.40	11.67%	12.8%	13,579
17	BANK OF NEW YORK MELLON	54.59	0.96	9.35%	11.3%	56,680
18	BAXTER INTL.	66.12	0.64	13.55%	14.7%	37,702
19	BECTON DICKINSON	223.32	3.00	14.25%	15.8%	53,250
20	BRISTOL MYERS SQUIBB	62.15	1.60	10.75%	13.6%	101,197
21	BROWN-FORMAN 'B'	63.20	0.63	10.99%	12.1%	14,563
22	CAPITAL ONE FINL.	95.82	1.60	12.76%	14.7%	50,127
23	CBS 'B'	57.59	0.72	13.81%	15.2%	21,755
24	CENTERPOINT EN.	28.63	1.11	8.05%	12.3%	11,996
25	CHURCH & DWIGHT CO.	47.87	0.76	9.63%	11.4%	12,364
26	CIGNA	208.39	0.04	14.79%	14.8%	54,157
27	CISCO SYSTEMS	38.14	1.16	8.90%	12.3%	204,172
28	CMS ENERGY	47.80	1.33	7.37%	10.4%	12,440
29	COGNIZANT TECH.SLTN.'A'	73.22	0.60	13.93%	14.9%	45,255
30	COMCAST 'A'	39.15	0.76	8.68%	10.8%	193,977
31	COSTCO WHOLESALE	184.41	2.00	9.54%	10.7%	84,108
32	DELTA AIR LINES	54.18	1.22	12.03%	14.6%	42,386
33	DISCOVER FINANCIAL SVS.	73.23	1.40	10.52%	12.6%	28,424
34	DR PEPPER SNAPPLE GROUP	97.06	2.32	8.98%	11.6%	17,209
35	EATON	79.44	2.40	11.73%	15.1%	36,817
36	ECOLAB	135.17	1.64	12.30%	13.7%	39,971
37	EMERSON ELECTRIC	66.74	1.94	8.67%	11.9%	47,142
38	EQUIFAX	116.24	1.56	9.43%	10.9%	14,751
39	ESTEE LAUDER COS.'A'	127.08	1.52	12.46%	13.8%	29,447
40	EXPEDITOR INTL.OF WASH.	63.28	0.84	9.16%	10.6%	11,744

	COMPANY	STOCK PRICE (P_0)	D_0	FORECAST OF FUTURE EARNINGS GROWTH	MODEL RESULT	MARKET CAP $ (MILS)
41	FEDEX	242.33	2.00	13.73%	14.7%	72,914
42	FIDELITY NAT.INFO.SVS.	95.07	1.28	12.32%	13.8%	32,566
43	GAP	31.97	0.92	7.20%	10.3%	13,128
44	HANESBRANDS	21.24	0.60	8.10%	11.2%	8,021
45	HARTFORD FINL.SVS.GP.	56.55	1.00	12.65%	14.7%	20,008
46	HASBRO	93.34	2.28	9.43%	12.1%	11,275
47	HCA HEALTHCARE	87.41	1.40	8.77%	10.5%	31,904
48	HERSHEY	110.44	2.62	8.40%	11.0%	16,177
49	HOME DEPOT	184.14	3.56	13.28%	15.5%	231,600
50	HUMANA	256.52	1.60	12.22%	12.9%	39,921
51	HUNT JB TRANSPORT SVS.	112.93	0.96	14.01%	15.0%	13,329
52	HUNTINGTON BCSH.	14.58	0.44	11.02%	14.4%	16,765
53	ILLINOIS TOOL WORKS	166.58	3.12	10.68%	12.8%	58,351
54	INTEL	45.78	1.20	8.91%	11.8%	208,166
55	INTERNATIONAL PAPER	58.30	1.90	11.11%	14.8%	25,857
56	INTERPUBLIC GROUP	19.94	0.72	10.57%	14.6%	8,394
57	INTUIT	158.51	1.56	12.73%	13.8%	42,029
58	JACOBS ENGR.	65.84	0.60	10.39%	11.4%	9,869
59	JOHNSON CONTROLS INTL.	38.42	1.04	10.33%	13.3%	36,387
60	JP MORGAN CHASE & CO.	106.24	2.24	9.18%	11.5%	392,981
61	JUNIPER NETWORKS	27.61	0.72	8.81%	11.7%	10,371
62	KELLOGG	65.78	2.16	6.66%	10.2%	22,732
63	KEYCORP	19.66	0.42	9.66%	12.0%	22,390
64	KRAFT HEINZ	79.09	2.50	9.87%	13.4%	96,571
65	L BRANDS	54.23	2.40	7.75%	12.6%	13,837
66	LENNAR 'A'	62.73	0.16	12.44%	12.7%	14,387
67	M&T BANK	171.70	3.00	11.86%	13.8%	28,018
68	MARSH & MCLENNAN	83.13	1.50	11.11%	13.1%	41,625
69	MATTEL	16.46	0.60	9.87%	13.9%	5,235
70	MCCORMICK & COMPANY NV.	101.64	2.08	11.02%	13.3%	12,331
71	MICROSOFT	86.07	1.68	10.69%	12.9%	695,084
72	MONDELEZ INTERNATIONAL CL.A	42.89	0.88	10.87%	13.2%	65,275
73	MOODY'S	150.88	1.76	13.19%	14.5%	30,098
74	NEXTERA ENERGY	154.67	3.93	8.44%	11.2%	70,926
75	NISOURCE	25.99	0.78	7.70%	11.0%	8,076
76	NORTHROP GRUMMAN	309.87	4.40	8.69%	10.2%	54,713
77	NVIDIA	205.76	0.57	15.45%	15.8%	136,011
78	OMNICOM GROUP	72.55	2.40	8.05%	11.7%	17,525
79	ORACLE	49.34	0.76	8.92%	10.6%	207,932
80	PACKAGING CORP.OF AM.	118.91	2.52	11.03%	13.4%	11,899
81	PATTERSON COMPANIES	35.85	1.04	7.91%	11.1%	3,446
82	PAYCHEX	67.84	2.00	9.28%	12.5%	24,738
83	PEPSICO	116.84	3.22	7.66%	10.7%	169,306
84	PERKINELMER	74.22	0.28	12.25%	12.7%	8,767
85	PNC FINL.SVS.GP.	143.65	3.00	12.47%	14.8%	73,135
86	PPG INDUSTRIES	116.71	1.80	10.15%	11.9%	30,132
87	PRAXAIR	154.48	3.30	8.47%	10.8%	46,238
88	PROCTER & GAMBLE	89.34	2.76	7.23%	10.6%	227,344
89	PVH	137.53	0.15	12.33%	12.5%	11,132

	COMPANY	STOCK PRICE (P_0)	D_0	FORECAST OF FUTURE EARNINGS GROWTH	MODEL RESULT	MARKET CAP $ (MILS)
90	REPUBLIC SVS.'A'	65.79	1.38	10.39%	12.7%	22,697
91	ROCKWELL AUTOMATION	196.81	3.34	11.05%	12.9%	26,202
92	ROCKWELL COLLINS	135.13	1.32	11.76%	12.9%	22,505
93	ROSS STORES	76.84	0.64	10.00%	10.9%	31,202
94	S&P GLOBAL	168.70	1.64	13.38%	14.5%	45,553
95	SOUTHWEST AIRLINES	61.09	0.50	13.33%	14.3%	38,606
96	STRYKER	157.04	1.88	10.38%	11.7%	59,983
97	SUNTRUST BANKS	63.77	1.60	11.14%	14.0%	32,342
98	SYSCO	59.16	1.44	12.51%	15.3%	32,420
99	TAPESTRY	43.65	1.35	10.04%	13.5%	13,454
100	TEXAS INSTRUMENTS	103.45	2.48	10.82%	13.5%	114,729
101	THERMO FISHER SCIENTIFIC	195.82	0.68	12.19%	12.6%	85,175
102	TIFFANY & CO	100.26	2.00	10.28%	12.5%	13,428
103	TIME WARNER	92.54	1.61	8.88%	10.8%	72,386
104	TOTAL SYSTEM SERVICES	77.78	0.52	13.15%	13.9%	15,242
105	TRACTOR SUPPLY	71.34	1.08	12.48%	14.2%	10,158
106	UNITED PARCEL SER.'B'	121.66	3.32	9.47%	12.5%	91,784
107	WALGREENS BOOTS ALLIANCE	72.31	1.60	12.37%	14.9%	75,291
108	WASTE MANAGEMENT	84.05	1.70	10.51%	12.8%	38,194
108	WELLS FARGO & CO	59.21	1.56	9.37%	12.3%	315,137
108	WILLIS TOWERS WATSON	157.57	2.12	9.80%	11.3%	20,276
108	XILINX	70.95	1.40	9.05%	11.2%	19,442
108	ZOETIS	72.04	0.50	14.28%	15.1%	37,195
108	Market-weighted Average				12.8%	

Notes: In applying the DCF model to the S&P 500, I include in the DCF analysis only those companies in the S&P 500 group which pay a dividend, have a positive growth rate, and have at least three analysts' long-term growth estimates. To be conservative, I also eliminate those 25% of companies with the highest and lowest DCF results.

D_0 = Current dividend per Thomson Reuters.
P_0 = Average of the monthly high and low stock prices during the three months ending January 2018 per Thomson Reuters.
g = I/B/E/S forecast of future earnings growth January 2018.
k = Cost of equity using the quarterly version of the DCF model shown below:

$$k = \left[\frac{d_0 (1+g)^{\frac{1}{4}}}{P_0} \right]^4 - 1$$

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY	)	
	)	
CORPORATION FOR AN ADJUSTMENT	)	**Case No. 2017-00349**
	)	
OF RATES AND TARIFF MODIFICATIONS	)	

REBUTTAL TESTIMONY OF DANE A. WATSON

INDEX TO THE REBUTTAL TESTIMONY
OF DANE A. WATSON, WITNESS FOR
ATMOS ENERGY CORPORATION, KENTUCKY DIVISION

I. INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME AND POSITION.

A. My name is Dane A. Watson. I am Managing Partner at Alliance Consulting Group. My address is 101 E. Park Blvd., Suite 220, Plano, Texas 75074

Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

A. No. Due to the positions taken by Attorney General ("AG") Witness Kollen, I have been asked to provide rebuttal testimony in support of the filed depreciation rates, which were a result of a study I performed as of September 30, 2014. That study was filed and approved by the Kentucky Public Service Commission in 2015.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I hold a Bachelor of Science degree in Electrical Engineering from the University of Arkansas at Fayetteville and a Master's Degree in Business Administration from Amberton University.

Q. CAN YOU PROVIDE A BRIEF SUMMARY OF YOUR CREDENTIALS AS IT RELATES TO DEPRECIATION EXPENSE?

A. Yes. Since graduation from college in 1985, I have worked in the area of depreciation and valuation. I founded Alliance Consulting Group in 2004 and am responsible for conducting depreciation, valuation and certain accounting-related studies for utilities in various industries. My duties relate to preparing depreciation studies and include (1) assembling and analyzing historical and simulated data, (2) conducting field reviews, (3) determining service life and net salvage estimates, (4) calculating annual depreciation, (5) presenting recommended depreciation rates to utility management for its consideration, and (6) supporting such rates before regulatory bodies.

My prior employment from 1985 to 2004 was with Texas Utilities ("TXU"). During my tenure with TXU, I was responsible for, among other things, conducting valuation and depreciation studies for the domestic TXU companies. During that time, I served as Manager of Property Accounting Services and Records Management in addition to my depreciation responsibilities.

I have twice been Chair of the Edison Electric Institute ("EEI") Property Accounting and Valuation Committee and have been Chairman of EEI's Depreciation and Economic Issues Subcommittee. I am a Registered Professional Engineer ("PE") in the State of Texas and a Certified Depreciation Professional. I am a Senior Member of the Institute of Electrical and Electronics Engineers ("IEEE") and have held numerous offices on the Executive Board of the Dallas Section, Region and worldwide offices of IEEE. I am also twice Past President of the Society of Depreciation Professionals.

Q. DO YOU HOLD ANY SPECIAL CERTIFICATION AS A DEPRECIATION EXPERT?

A. Yes. The Society of Depreciation Professionals ("the Society") has established national standards for depreciation professionals. The Society administers an examination and has certain required qualifications to become certified in this field. I met all requirements and have become a Certified Depreciation Professional ("CDP").

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?

A. Yes. I have testified before numerous state and federal agencies in my 30 year career in performing depreciation studies. I have conducted depreciation studies, filed written testimony and/or testified before the Commissions provided in Exhibit DAW-R-1.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION OR ANY OTHER REGULATORY COMMISSIONS?

A. Yes. I have provided written testimony on behalf of Atmos Energy in Kentucky Case Nos. 2013-00148 and 2015-00343.

Q. HAVE YOU REVIEWED THE ATTORNEY GENERAL'S, MR. LANE KOLLEN, TESTIMONY ON DEPRECIATION EXPENSE RELATED TO LOWER NET SALVAGE FILED IN THIS CASE?

A. Yes, I have.

II. <u>PURPOSE AND SUMMARY OF TESTIMONY</u>

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond on behalf of Atmos Energy Corporation Kentucky Division ("Atmos Energy" or the "Company"), to the position taken by Attorney General Witness Mr. Lane Kollen regarding the net salvage methodology used to make revised net salvage recommendations and the resulting depreciation rates. Mr. Kollen's recommendations should be rejected in favor of the Kentucky Public Service Commission's ("KPSC" or the

"Commission") long standing approach on net salvage (which was used by the Company) as well as the fact the Atmos Kentucky depreciation rates were already approved by this Commission in 2015-00343.[1]

III. BACKGROUND ON ATMOS KENTUCKY DEPRECIATION STUDY

Q. WHEN DID ATMOS KENTUCKY CONDUCT THE DEPRECIATION STUDY THAT IS THE BASIS FOR THE DEPRECIATION RATES USED IN THIS CASE?

A. The last depreciation study conducted was as of September 30, 2014 and was submitted and approval by this Commission in Case No. 2015-00343.

Q. MR. KOLLEN CITES THAT THE DEPRECIATION RATES FROM CASE NO. 2015-00343 WAS PART OF A STIPULATION AGREEMENT AND DOES NOT APPLY IN THIS PROCEEDING[2]. HOW DO YOU RESPOND?

A. I agree that the Commission approved the depreciation rates in Case No. 2015-00343 as part of a stipulation agreement. However, I believe it is important to note that AG Witness Mr. Kollen did file testimony in that proceeding and did not raise any issue or take exception to any of the depreciation study recommendations or results, all of which would have occurred and been documented in testimony prior to the parties coming to a stipulation agreement.[3]

[1] Kentucky Public Service Commission Final Order, Case No. 2015-00343
[2] Kollen Direct, p. 55, line 14 footnote 48
[3] Kollen Direct Testimony, Case No. 2015-00343

Q. WHY IS THE LACK OF OPPOSITION FROM MR. KOLLEN REGARDING THE DEPRECIATION STUDY AND RATES IN THE PRIOR CASE IMPORTANT IN THIS PROCEEDING?

A. The Company did not perform a new study or conduct any updates to the study and depreciation rates that were approved by all the parties and Ordered by the Commission in 2015-00343.[4] Mr. Kollen had the same opportunity to raise questions or issues on any of the depreciation parameters, and specifically net salvage parameters prior to the stipulation agreement if he felt the net salvage was not appropriate as he now claims.[5] However, he did not raise any such concerns on net salvage at that time.[6] It appears disingenuous to do so now regardless of whether or not there is a rule of law applying to stipulation agreements that would allow Mr. Kollen to make different recommendations in this case now. Furthermore, Mr. Kollen's position is not based on correcting an error, submitting an updated depreciation study using more current information, or using authoritative guidance as the basis for his alternative net salvage approach but is solely driven to reduce depreciation expense at a cost to the customers.

Q. DO YOU HAVE ANY OTHER BACKGROUND POINTS YOU WOULD LIKE TO ADDRESS?

A. Yes. The depreciation rates that were approved in Case No. 2015-00323 were based on a study as of September 30, 2014. Based on the investment balances at that

[4] Kentucky Public Service Commission Final Order, Case No. 2015-00343
[5] Kollen Direct, p. 58 lines 11-14
[6] Kollen Direct Testimony, Case No. 2015-00343

time, the study resulted in a decrease in annual depreciation expense of approximately $1.6 million.[7] There were revisions to both life and net salvage but the largest decrease in annual depreciation expense is due to the change in net salvage for Transmission and Distribution Mains and Distribution Services accounts.[8] This reduction in net salvage was a direct result of a Time and Motion study conducted and implemented by the Company to determine a uniform removal cost allocation for replacement activities.[9]

IV. RESPONSE TO ATTORNEY GENERAL NET SALVAGE APPROACH

Q. DO YOU HAVE ANY INITIAL COMMENTS REGARDING MR. KOLLEN'S TESTIMONY?

A. Yes. Mr. Kollen' recommendations, which are only related to one aspect of the depreciation study, net salvage, are not only unorthodox but violates traditional depreciation theory, this Commission's precedent, intergenerational equity between generations of customers and the Federal Energy Regulatory Commission's ("FERC") guidance on accrual accounting. This can be contrasted to the comprehensive, independent analysis and evaluation I follow when conducting a depreciation study that is based on sound, well established and widely approved methodologies. The goal in my study is to recommend the best estimate of life and net salvage based on Atmos Kentucky specific experience and plans. Searching for "alternative" methods for the treatment of removal cost is unwarranted and

[7] Watson Direct, Case No. 2015-00343, p. 8, line 20
[8] Ibid, p. 9, lines 14-17
[9] Ibid, lines 17-19

inappropriate. Mr. Kollen's proposal does achieve a reduction in annual depreciation expense of approximately $3.5 million[10] but at the cost of ignoring sound depreciation theory and departing from this Commission's long standing approach. In addition, Mr. Kollen's alternative net salvage approach ultimately hurts customers over the long term as he acknowledged by stating that his approach will require higher rates for customers later[11] - which clearly violates the intergenerational equity concept. For all of these reasons Mr. Kollen's approach should be rejected.

Q. MR. KOLLEN RECOMMENDS IN HIS DIRECT TESTIMONY THAT THE COMMISSION CALCULATE ATMOS ENERGY DEPRECIATION RATES FOR KENTUCKY DIRECT PROPERTY USING AN ALTERNATIVE "THIRD APPROACH".[12] WOULD YOU SIMPLY EXPLAIN THAT APPROACH?

A. Yes. Mr. Kollen's recommendation is simply to average the amount that the Company has spent in removing assets from service in previous years and only allow the Company to recovery in the future a portion of the cost the Company has spent to retire assets that are no longer in service. This approach does not allow for the accrual of the future removal cost for the Company's assets that are currently in service over the life of those assets.

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[10] Kollen Direct, p. 59 line 15

[11] Kollen Direct, p. 56 lines 16-20

[12] Direct Testimony of Lane Kollen at p. 58

Q. IN WHAT ACCOUNTS HAS MR. KOLLEN MADE ADJUSTMENTS TO NET SALVAGE?

A. Mr. Kollen applies his alternate net salvage calculation to all accounts, which results in changes to the majority of the net salvage parameters I recommended and ultimately changing the depreciation rates in a majority of the accounts in this case.[13]

Q. HAS MR. KOLLEN PROVIDED ANY EVIDENCE OF A JURISDICTION THAT USE HIS PROPOSED NET SALVAGE APPROACH?

A. No.

Q. DOES MR. KOLLEN PROVIDE ANY AUTHORITATIVE SUPPORT FOR HIS ALTERNATIVE APPROACH FOR NET SALVAGE RECOMMENDATION?

A. No. In his testimony, he does nothing more than explain his approach. He does not provide any citations of authoritative text supporting his approach or provide any explanation of why it is appropriate to vary from the well-established and the widely accepted traditional methodology.

Q. AS OPPOSED TO MR. KOLLEN'S "ALTERNATIVE" SUGGESTION, PLEASE EXPLAIN THE TRUE AUTHORITATIVE GUIDANCE.

A. Authoritative sources unanimously agree that projecting the cost to remove assets at the end of their lives is a necessary factor in establishing net salvage rates. For

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[13] Kollen Electronic Workpaper, "Atmos_Rev_Req_-_AG_Recommendation.xlsx." When comparing my proposed depreciation rates to his, there are only 9 out of 37 account depreciation rates that do not change. This is based on the rates as calculated by Mr. Kollen without doing a reserve allocation. The reserve allocation could change the number of account rates impacted.

example, National Association Regulatory Utility Commissioner's ("NARUC") "Public Utility Depreciation Practices" supports the use of estimated future salvage and removal cost as part of the depreciation calculation. The publication, "Public Utility Depreciation Practices" (1996 Edition) published by NARUC states:

> Under presently accepted concepts, the amount of depreciation to be accrued over the life of an asset is its original cost less net salvage. Net salvage is the difference between the gross salvage that will be realized when the asset is disposed of <u>and the cost of retiring it</u>. Positive net salvage occurs when gross salvage exceeds cost of retirement, and negative net salvage occurs when cost of retirement exceeds gross salvage. **Net salvage is expressed as a percentage of plant retired by dividing the dollars of net salvage by the dollars of original cost of plant retired**. The goal of accounting for net salvage is to allocate the net cost of an asset to accounting periods, making due allowance for the net salvage, positive or negative. This concept carries with it the premise that property ownership includes the responsibility for the property's ultimate abandonment or removal. Hence, if current users benefit from its use, **they should pay their pro rata share of the costs involved in the abandonment or removal of the property** and also receive their pro rata share of the benefits of the proceeds realized.
>
> **This treatment of net salvage is in harmony with generally accepted accounting principles** and tends to remove from the income statement any fluctuations caused by erratic, although necessary, abandonment and removal operations. It also has the advantage that **current customers pay or receive a fair share of cost associated with the property devoted to their service, even though the costs may be estimated.**[14] (Emphasis added.)

Also, two of the most widely regarded experts on depreciation, Frank Wolf and Chester Fitch, state in their 1994 treatise Depreciation Systems:

> Effect of Inflation on the Salvage Ratio: One inherent characteristic of the salvage ratios is that the numerator and denominator are measured

[14] NARUC Public Utility Depreciation Practices, Page 18

in different units; the numerator is measured in dollars at the time of retirement while the denominator is measured in dollars at the time of installation.[15] (Emphasis added.)

Drs. Wolf and Fitch further explain the importance of recognizing the future cost to retire current assets as follows:

Negative salvage is a common occurrence. With inflation, the cost of retiring long-lived property, such as a water main, may exceed the original installed cost. Decommissioning cost of nuclear power plants is an example of large negative salvage. The matching principle specifies that all costs incurred to produce a service should be matched against the revenue produced. Estimated future costs of retiring of an asset currently in service must be accrued and allocated as part of the current expenses. … The accounting treatment of these future costs is clear. They are part of the current cost of using the asset and must be matched against revenue. While the current consumers would say they should not pay for future costs, it would be unfair to the future users if these costs were postponed. Some say that although the current consumers should pay for the future cost, that the future value of the payments, calculated at some reasonable interest rate, should equal the retirement cost. Studies show that the salvage is often "more negative" than forecasters had predicted.[16]

The Company's study has adhered to these teachings and well established methodologies by including future estimated removal costs in its proposed depreciation rates - Mr. Kollen has not.

[15] See Depreciation Systems, page 53

[16] See Depreciation Systems, pages 7 and 8

Q. WHAT IS MR. KOLLEN'S JUSTIFICATION FOR CHANGING WHAT THE PARTIES HAD ALREADY AGREED TO IN CASE NO. 2015-00343 AND BEEN APPROVED BY THIS COMMISSION?

A. Mr. Kollen claims the Company's methodology front loads costs based on limited data; it preemptively recovers costs that have not and may not be incurred; and it overstates depreciation rates and expense. I will discuss each below.

Q. DO YOU AGREE WITH MR. KOLLEN'S ASSERTION THE COMPANY APPROACH IS FRONT LOADED?

A. No. The Company's approach (which is the industry-standard approach) is to recover the estimated future cost to remove assets over the life of the assets on a straight-line basis. It follows the accounting concept of matching and the FERC rules that requires public utility companies to follow accrual accounting.[17] As admitted by Mr. Kollen, his approach is actually back-end loaded and evidenced by his statement that his approach will require higher rates later.[18]

Q. MR. KOLLEN ASSERTS THE COMPANY APPROACH IS BASED ON LIMTED DATA, DO YOU AGREE?

A. No. In the depreciation study for this case, there were multiple accounts that had 19 years of historical retirement, salvage and cost of removal activity. Mr. Kollen's own electronic workpaper, provided in this case, identifies 19 years of data[19], making his claim unfounded.

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[17] FERC CFR 18, Part 201 General Instructions, 11 "Accounting to be on an accrual basis"

[18] Kollen Direct, p. 56 lines 16-20

[19] Kollen Direct, p. 59, footnote 49 - Refer to Mr. Kollen's electronic workpapers, "Atmos_Rev_Req_-_AG Recommendation.xlsx, tab AG's Inter Salv Calcs."

Q. MR. KOLLEN ALSO CLAIMS THAT THE COMPANY'S APPROACH RECOVERS COSTS THAT HAVE NOT AND MAY NOT BE INCURRED, DO YOU AGREE?

A. No. Mr. Kollen's claim has the effect of denying accrual accounting which is required by FERC and is a longstanding basis for utility accounting. Removal cost is recovered from the customers who have use of the assets. This means that, consistent with FERC requirements, removal cost is accrued over the life of the assets. When the removal cost is incurred at the end of the life of the assets, the cost has been recovered from the customers having use of the assets over a straight-line basis. As noted above, the Company has 19 years of historical experience in its net salvage analysis for many of its accounts, clearly proving that removal cost has been and will be incurred.

Q. DOES FERC PROVIDE SPECIFIC GUIDANCE REGARDING THE TREATMENT OF SALVAGE AND COST OF REMOVAL IN CALCULATING DEPRECIATION EXPENSE?

A. Yes. I have noted above, FERC does have specific requirements regarding accrual accounting, which apply to how the utility should handle salvage and cost of removal under those instructions. Also in the FERC Code of Federal Regulations (CFR) 18, Part 201, Gas Plant Instruction 10(B) (2) states:

> When a retirement unit is retired from gas plant, with or without replacement, the book cost thereof shall be credited to the gas plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to gas plant shall be charged to the accumulated provision for depreciation applicable to such

property. **<u>The cost of removal and the salvage shall be charged or credited, as appropriate to such depreciation account. (Emphasis added)</u>**

Q. HOW DOES MR. KOLLEN'S APPROACH VIOLATE ACCRUAL ACCOUNTING PRINCIPLES?

A. Mr. Kollen's proposal limits removal cost recovery to the average amount spent to retire assets no longer in service - holding current expense at a set level until the next case.[20] His approach is not and will not be representative of future removal cost and does not accrue for the known fact there will be costs that will occur in the future at time of retirement for the assets. Even by Mr. Kollen's own admission, the depreciation rates will have to be higher in the latter years of the assets lives.[21] Accrual accounting allows the future estimated cost of removal to be recovered on a straight-line basis from customers until actual retirement of the assets. The FERC does require public utility companies to follow accrual accounting.[22] If the Company does not accrue a ratable amount now, by including future net salvage in the rates, it will only amplify and unfairly burden future customers with these costs.

Q. DOES FERC ACKNOWLEDGE THE TRADITIONAL METHOD OF NET SALVAGE YOU HAVE USED?

A. Yes. There is a current case before FERC, where an intervenor has made an alternative proposal on net salvage, similar to Mr. Kollen in this case, and the FERC Trial Staff has opposed and argued that it was not consistent with the USOA.[23]

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[20] Kollen Direct, p. 59
[21] Kollen Direct, p. 56
[22] FERC USOA CFR 18 Part 201, General Instruction 11
[23] FERC Docket No. ER16-2320-000. Exhibit S-0001

Q. YOU HAVE MENTIONED THE TERM INTERGENERATIONAL EQUITY, CAN YOU EXPLAIN WHAT IT MEANS?

A. Certainly. Intergenerational equity is a ratemaking principle in which customers receiving the benefit from the use of the asset are the same customers who pay for the cost of the asset. Including net salvage in depreciation rates results in intergenerational equity, as the net salvage costs are part of the total cost of an asset and should be recovered ratably over its service life.

Q. DOES MR. KOLLEN'S NET SALVAGE PROPOSAL RESULT IN INTERGENERATIONAL EQUITY?

A. No it does not. Mr. Kollen has admitted his proposal will require "greater depreciation rates in the latter years of assets lives.[24]

Q. CAN YOU PROVIDE AN ANALOGY FOR THE INTERGENERATIONAL INEQUITY PROBLEM CAUSED BY MR. KOLLEN'S PROPOSAL?

A. Yes. A good analogy is to think of a fixed rate mortgage (Commission precedent and the Company's proposal) and a balloon mortgage (Mr. Kollen's proposal) for a homeowner. In a fixed rate mortgage, the total future cost of the mortgage is paid evenly over the life of the loan (in the same way that Commission precedent and the Company's traditional method treat removal cost). The estimated amount of removal cost required to remove assets at the end of their lives (parallel to the total mortgage cost) is accrued evenly or on a straight-line basis over the expected life of the assets (parallel to the loan period). Mr. Kollen's approach would move from

[24] Kollen Direct, p. 56

a fixed rate mortgage to a balloon mortgage. Under a balloon mortgage, a small payment sufficient to cover interest is paid each year until the balloon payment for the actual loaned amount is required. Mr. Kollen's plan would have the Company accrue each year a small amount that would only cover a small portion of the necessary future removal cost. Unfortunately, as with the balloon mortgage, this does not allow the Company to "save" (i.e. accrue) for the dramatically higher cost to remove larger quantities of assets at future costs. Customers paying these "balloon payment removal costs" will be customers who are using the asset at the end of or more likely after the end its useful life. The effect that this proposal has on the Company is clear; it will prevent the Company from accruing a reasonable level of removal cost on a consistent basis over the useful life of the plant asset. The effect of Mr. Kollen's proposal on future ratepayers is also clear; future generations of customers will be forced to pay a disproportional share of the removal costs of assets that we are now using.[25]

Q. DOES THE COMPANY'S METHOD CREATE INTERGENERATIONAL INEQUITIES OR VIOLATE FERCS ACCRUAL ACCOUNTING REQUIREMENT?

A. No. In the same way depreciation expense for assets is shared ratably by current and future customers, the straight-line approach used by the Company spreads net salvage costs or benefits to all customers evenly over the life of the assets.

[25] By Mr. Kollen's own admission - his approach will require higher rates later. Kollen Direct, p 56 lines 16-20

V. OTHER JURISDICTIONS AFFIRMATION OF THE TRADITIONAL METHOD OF NET SALVAGE

Q. IS THERE ANY CONFUSION AMONG REGULATORY AUTHORITIES REGARDING THE CORRECT TREATMENT OF REMOVAL COSTS?

A. No. Nearly every Commission in the country adopts the same approach as this Commission has always adopted, which is to include future estimated removal costs in net salvage rates. It is this precedent and sound policy on which I have relied to develop the proposed net salvage rates for the Company's assets in the depreciation study in this case.

Q. WHAT OTHER STATE REGULATORY COMMISSIONS HAVE ADOPTED THIS COMMISSION'S PRACTICE OF INCLUDING ESTIMATED REMOVAL COST IN THE NET SALVAGE CALCULATION?

A. Every state, with the exception of Pennsylvania, has historically approved the inclusion of estimated removal cost in the calculation of net salvage rates. While a small number of states have at some point adopted alternative approaches - some arguably to moderate the rate shock of coming off of a multi-year rate freeze - the vast majority of states have not. With respect to Pennsylvania, it is worth noting that the Indiana Regulatory Commission noted that Pennsylvania's practice is required under a 1962 court order interpreting a Pennsylvania law.[26] In addition, a number of other states, such as California,[27] have examined other approaches and rejected it. Similarly, states, such as Missouri,[28] that have experimented with net

[26] Final Order, Indiana Public Regulatory Commission, Cause No. 42359, page 65
[27] Pacific Gas and Electric, Decision 07-030344, March 15, 2007
[28] Ameren UE, Final Order, ER2007-0002, and Staff response to Commission Order

salvage theories have realized the error of this approach and no longer allow its use. In the Atlanta Gas Light Case, the Georgia Public Service Commission overturned its prior ruling and returned to the traditional method of calculating net salvage in the depreciation rates.[29]

Q. HAS ANY COMMISSION REVIEWED NUMEROUS ALTERNATE NET SALVAGE APPROACHES ALONG WITH THE TRADITIONAL APPROACH?

A. Yes. In Michigan, the Commission opened a separate docket to explore four different calculation approaches and required the utilities to submit all four methodologies with their depreciation testimony. After considerable time and evaluation, the Michigan Commission issued an Order in Consumers Gas Docket No. U-15629 which approved depreciation rates based on the traditional method of net salvage. This precedent has been continued by the Michigan Public Service Commission for every depreciation case litigated since Docket No. 15629. It became clear to the Michigan Commission that retaining alternate methodologies over the long term will negatively impact customers and should not be approved.

[29] Atlanta Gas Light Company Docket No. 31647 Finding of Fact No. 8 - "The Commission finds as a matter of fact that it is appropriate to restore the traditional method for calculating net salvage to avoid deferring costs to future customers. … "

Q. CAN YOU SHARE SOME OF THE VARIOUS COMMISSION STATEMENTS THAT ADDRESS THE NET SALVAGE METHODOLOGIES?

A. Yes. In **Indiana,** as mentioned above, the Commission ruled against an approach similar to Mr. Kollen's with these statements:

> We believe that there is a sound basis for the traditional approach on this issue that is utilized by a majority of states. Utilizing historical averages as an item to be expensed to current customers means that these customers will be paying for salvage costs at levels that may not be sufficient. That means that the next generation of customers will be paying for salvage costs related to facilities from which they may never have received service. The use of best estimates of future salvage costs addresses this inequity. Moreover, use of historical averages for dismantling costs does not take into account the current configuration of PSI's system with regard to its production, transmission, distribution and general facilities. Facilities in service 40-50 years ago did not take into account the significantly enhanced customer base that PSI now serves, nor the current configuration of PSI facilities that serve these customers. It seems appropriate to utilize best cost estimates for net salvage values taking into account specific facilities now servicing PSI's customers in developing depreciation rates that today's customers should pay. Accordingly, we find that the use of historical averages for net salvage values with regard to transmission, distribution and general plant for the purpose of expensing them outside the context of the depreciation determination should be, and hereby is rejected.[30]

In **Missouri,** the Laclede case was highly litigated, which ended in the Missouri Commission issuing this statement:

> "The Commission finds that Laclede has shown the accrual method to be just and reasonable and that Staff has failed to show that the

[30] Indiana Cause No. 42359, Order 051804, page 71-72

Commission should adopt Staff's method of accounting for net salvage."[31]

There are a few other important notations that came out of the Missouri Laclede Order that I believe are worth noting here.

1. "Staff is the party advocating a change in the depreciation method used not only by Laclede, but almost all utilities in the country."[32]
2. "The accrual method has been used by Laclede and the Commission to determine Laclede's depreciation rates since at least the early 1950's. **It is undisputed that using the accrual method for this purpose is supported by the overwhelming weight of authority on such matters**."[33]
3. "Since it is clear from the evidence in this case that the accrual method comes closer to matching the costs to the benefits derived, the Commission finds that the intergenerational equity will be promoted by the continued use of the accrual method."[34]
4. "The Commission also finds that Staff's method significantly decreases the cash flows available to utilities to meet their infrastructure and other public service obligations. This, in turn, has a negative financial impact on both the utility and its customers by requiring such obligations be met with more expensive sources of external financings and by driving up the cost generally of obtaining money in the capital markets. The Commission finds that Staff has not shown that the adoption of its method would justify these increased costs for utility consumers."[35]

These are some, not all, of the statements issued by the Missouri Commission on this issue, which provide a clear picture that these alternate methodologies should be rejected.

[31] Missouri Case No. GR-99-315, Third Report and Order issued January 11, 2005, page 16
[32] Ibid at 7
[33] Id. at 8-9 (Emphasis added)
[34] Id. at 11-12.
[35] Id. at 14

In an **Ameren Illinois** case, the Illinois Commission stated:

"The Commission does not concur with IIEC and the Commercial Group's proposal to depart from the Commission's current treatment of net salvage costs; specifically, using the traditional, accrual method of accounting for net salvage. Although there are some regulatory commissions that have moved away from the methods prescribed for depreciation, this Commission is not inclined to do so as the evidence does not show it is necessary. It has been appropriate to use the traditional method by allocating the cost to each year of the assets' service life rather than when the actual salvage-related costs are incurred. This method of depreciation allocates in a systematic and rational manner the service value of depreciable property over the service life of the property. IIEC's complaint that customers today will pay the same number of dollars as future customers represents a misunderstanding or misrepresentation of the purpose of systematic recovery of depreciation expense, which provides for rate recovery of long-lived assets over their expected useful life. In contrast, the net salvage approach advocated by IIEC and the Commercial Group would improperly push costs into the future that are more appropriately borne by current ratepayers. The Commission understands why such an approach may appear attractive in the short-run, but in the long-term it provides no benefit to ratepayers in aggregate. Further, contrary to the Commercial Group's assertion, the Commission concludes that AIU's reliance on some net salvage estimates from other electric utilities does not result in over-projecting net salvage expense relative to AIU's current net salvage expense. In conclusion, the accrual method for calculating net salvage is consistent with the Commission accounting practices for regulated utilities, has been accepted, deemed appropriate for years, and the Commission remains convinced that it is appropriate in this case."[36]

Finally, in **California** the Commission there provided the following:

"We reject, however, the analysis that DRA performed of actual removals compared to the accrual of salvage costs…we find that the

[36] Illinois Commerce Commission Order in Docket Nos. 07-0585, 07-0586, 07-0587, 07-0588, 07-0589, and 07-0590, pages 138-139

> accrual of salvage costs in the past five years is not intended to fund the current removal in that same five-year period. The accrual in any one year is the fractional accrual for the eventual retirement of all outstanding plant as their service lives expire. We therefore find no meaningful conclusions from this analysis." D.08-07-046, pp. 25-26.

The Commission further stated:

> [I]ntervening parties were not persuasive here, and have also failed to persuade the Commission in other recent proceedings, that current depreciation practices [to include future estimated removal cost in the net salvage calculation] are unreasonable or incorrect. In particular, TURN and UCAN argue applicants incorrectly calculate and recover negative net salvage values. We reject these arguments." (D.08-07-046).

And in conclusion, the Commission stated:

> "The alternative methodology proposed by TURN was not adopted in the most recent Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) GRCs. We would therefore have denied with prejudice the recommendations of DRA, TURN, and UCAN on depreciation and net salvage in a litigated decision." (D.08-07-046).

While the above quotes are just some of the views of commissions that have rejected alternative net salvage approaches, it provides this Commission an unbiased view and documented support from other state regulatory commissions around the country of the proper, "traditional", net salvage methodology as Atmos has used in this case.

VI. <u>OTHER ISSUES</u>

Q. DO YOU HAVE OTHER CONCERNS REGARDING MR. KOLLEN'S CALCULATED DEPRECIATION RATES IN THIS CASE?

A. Yes. Mr. Kollen has proposed revised net salvage factors, which are used in calculating his proposed depreciation rates. However, Mr. Kollen failed to recognize that the depreciation study accrual I calculated utilized a reserve allocation and he has not performed the necessary update to the reserve allocation for his proposed changes.

Q. HOW DOES THE RESERVE ALLOCATION IMPACT THE ACCRUAL RATE CALCULATIONS?

A. The calculation of annual accrual rates includes the accumulated depreciation for each account. When a reserve allocation is being used, any change to the life or net salvage parameters will impact the theoretical reserve calculation and requires the reallocation of the reserve, in each respective function, to appropriately allocate the reserve to each respective account to calculate depreciation rates correctly.

Q. HAVE YOU DUPLICATED MR. KOLLEN'S ACCRUAL CALCULATIONS WITH THE RESERVE ALLOCATION?

A. Yes. Exhibit DAW-R-2 provides a comparison of Mr. Kollen's depreciation rates as filed versus the depreciation rates I calculated by using his net salvage parameters but performing the necessary reserve allocation. When comparing the result in Exhibit DAW-R-2 to what Mr. Kollen has provided in his electronic workpaper filing[37], it results in my corrected allocated accrual being $257,625.08 higher than what he originally calculated.

Q. WHAT ACTION IS NECESSARY FOR THIS COMMISSION REGARDING THE RESERVE ALLOCATION?

A. If the Commission reaffirms its long standing precedent of including future net salvage and approves the depreciation rates as submitted by the Company, it has to do nothing. If the Commission should adopt any or all of Mr. Kollen's net salvage parameters, it would be necessary to update the reserve allocation as I have discussed above. We could assist in this effort, if necessary, to provide the correct depreciation rates to the Commission.

VII. CONCLUSION

Q. DO YOU HAVE ANY CONCLUDING REMARKS YOU WOULD LIKE TO MAKE?

A. Yes. As shown in my rebuttal testimony, the position on net salvage taken by Mr. Kollen is neither supported by accounting rules, industry standard methodology or this Commission's precedent. In contrast, I have applied conventional, well accepted accounting and depreciation principles in order to develop the net salvage and resulting depreciation rates used in this case.

Consistent with the decisions of the Commission in prior cases, the Company has relied on straight-line depreciation with the inclusion of future net salvage. My recommendations on depreciation are fair, reasonable, well supported

[37] Atmos_Rev_Req_ -_AG_Recommendation, tab AG Adj Depr Rate Accrual.xlsx

by the analysis, and follow standard depreciation methods and procedures previously reviewed and approved by this Commission.

My study contains numerous analyses for each account, considered all the Company specific facts and plans to assign accurate and representative net salvage and service life values to Company's assets and is an unbiased estimate of the best life and net salvage parameters at the time. The depreciation rates used by the Company in this case provide for a fair and reasonable recovery of its assets from each generation of customers who use them.

I respectfully request that this Commission reject Mr. Kollen's recommendations and approve the depreciation rates contained in my study, and as submitted in this case by the Company.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF	)	
RATE APPLICATION OF	)	Case No. 2017-00349
ATMOS ENERGY CORPORATION	)	

CERTIFICATE AND AFFIDAVIT

The Affiant, Dane A. Watson, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared rebuttal testimony of this affiant in Case No. 2017-00349, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared rebuttal testimony.

Dane A. Watson

Dane A. Watson

STATE OF TEXAS

COUNTY OF COLLIN

SUBSCRIBED AND SWORN to before me by Dane A. Watson on this the 20th day of February, 2018.

Kelly Geer
Notary Public,
State of Texas
Expires: 09/25/2019

Kelly Geer

Notary Public

My Commission Expires: 9-25-19

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Tennessee	Tennesee Public Utility Commission	18-00017	Chattanooga Gas	2018	Gas Depreciation Study
Texas	Railroad Commission of Texas	10679	Si Energy	2018	Gas Depreciation Study
Alaska	Regulatory Commission of Alaska	U-17-104	Anchorage Water and Wastewater	2017	Water and Waste Water Depreciation Study
Michigan	Michigan Public Service Commission	U-18488	Michigan Gas Utilities Corporation	2017	Gas Depreciation Study
Texas	Railroad Commission of Texas	10669	CemterPoint South Texas	2017	Gas Depreciation Study
Arkansas	Arkansas Public Service Commission	17-061-U	Empire District Electric Company	2017	Depreciation Rates for New Wind Generation
Kansas	Kansas Corporation Commission	18-EPDE-184-PRE	Empire District Electric Company	2017	Depreciation Rates for New Wind Generation
Oklahoma	Oklahoma Corporation Commission	PUD 201700471	Empire District Electric Company	2017	Depreciation Rates for New Wind Generation
Missouri	Missouri Public Service Commission	EO-2018-0092	Empire District Electric Company	2017	Depreciation Rates for New Wind Generation

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Michigan	Michigan Public Service Commission	U-18457	Upper Peninsula Power Company	2017	Electric Depreciation Study
Florida	Florida Public Service Commission	20170179-GU	Florida City Gas	2017	Gas Depreciation Study
Michigan	FERC	ER18-56-000	Consumers Energy	2017	Electric Depreciation Study
Missouri	Missouri Public Service Commission	GR-2018-0013	Liberty Utilites	2017	Gas Depreciation Study
Michigan	Michigan Public Service Commission	U-18452	SEMCO	2017	Gas Depreciation Study
Texas	Public Utility Commission of Texas	47527	SPS	2017	Electric Production Depreciation Study
MultiState	FERC	ER17-1664	American Transmission Company	2017	Electric Depreciation Study
Alaska	Regulatory Commission of Alaska	U-17-008	Municipal Power and Light City of Anchorage	2017	Generating Unit Depreciation Study
Mississippi	Mississippi Public Service Commission	2017-UN-041	Atmos Energy	2017	Gas Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Texas	Public Utility Commission of Texas	46957	Oncor Electric Delivery	2017	Electric Depreciation Study
Oklahoma	Oklahoma Corporation Commission	PUD 201700078	CenterPoint Oklahoma	2017	Gas Depreciation Study
New York	FERC	ER17-1010-000	New York Power Authority	2017	Electric Depreciation Study
Texas	Railroad Commission of Texas	GUD 10580	Atmos Pipeline Texas	2017	Gas Depreciation Study
Texas	Railroad Commission of Texas	GUD 10567	CenterPoint Texas	2016	Gas Depreciation Study
MultiState	FERC	ER17-191-000	American Transmission Company	2016	Electric Depreciation Study
New Jersey	New Jersey Public Utilities Board	GR16090826	Elizabethtown Natural Gas	2016	Gas Depreciation Study
North Carolina	North Carolina Utilities Commission	Docket G-9 Sub 77H	Piedmont Natural Gas	2016	Gas Depreciation Study
Michigan	Michigan Public Service Commission	U-18195	Consumers Energy/DTE Electric	2016	Ludington Pumped Storage Depreciation Study
Alabama	FERC	ER16-2313-000	SEGCO	2016	Electric Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Alabama	FERC	ER16-2312-000	Alabama Power Company	2016	Electric Depreciation Study
Michigan	Michigan Public Service Commission	U-18127	Consumers Engegy	2016	Natural Gas Depreciation Study
Mississippi	Mississippi Public Service Commission	2016 UN 267	Willmut Natural Gas	2016	Natural Gas Depreciation Study
Iowa	Iowa Utilities Board	RPU-2016-0003	Liberty-Iowa	2016	Natural Gas Depreciation Study
Illinois	Illinois Commerce Commission	GRM #16-208	Liberty-Illinois	2016	Natural Gas Depreciation Study
Kentucky	FERC	RP16-097-000	KOT	2016	Natural Gas Depreciation Study
Alaska	Regulatory Commission of Alaska	U-16-067	Alaska Electric Light and Power	2016	Generating Unit Depreciation Study
Florida	Florida Public Service Commission	160170-EI	Gulf Power	2016	Electric Depreciation Study
Arizona	Arizona Corporation Commission	G-01551A-16-0107	Southwest Gas	2016	Gas Depreciation Study
Texas	Public Utility Commission of Texas	45414	Sharyland	2016	Electric Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Colorado	Colorado Public Utilities Commission	16A-0231E	Public Service of Colorado	2016	Electric Depreciation Study
Multi-State NE US	FERC	16-453-000	Northeast Transmission Development, LLC	2015	Electric Depreciaiton Study
Arkansas	Arkansas Public Service Commission	15-098-U	CenterPoint Arkansas	2015	Gas Depreciation Study and Cost of Removal Study
New Mexico	New Mexico Public Regulation Commission	15-00296-UT	SPS NM	2015	Electric Depreciation Study
Atmos Energy Corporation	Tennessee Regulatory Authority	14-00146	Atmos Tennessee	2015	Natural Gas Depreciation Study
New Mexico	New Mexico Public Regulation Commission	15-00261-UT	Public Service Company of New Mexico	2015	Electric Depreciation Study
Hawaii	NA	NA	Hawaii American Water	2015	Water/Wastewater Depreciation Study
Kansas	Kansas Corporation Commission	16-ATMG-079-RTS	Atmos Kansas	2015	Gas Depreciation Study
Texas	Public Utility Commission of Texas	44704	Entergy Texas	2015	Electric Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Alaska	Regulatory Commission of Alaska	U-15-089	Fairbanks Water and Wastewater	2015	Water and Waste Water Depreciation Study
Arkansas	Arkansas Public Service Commission	15-031-U	Source Gas Arkansas	2015	Underground Storage Gas Depreciation Study
New Mexico	New Mexico Public Regulation Commission	15-00139-UT	SPS NM	2015	Electric Depreciation Study
Texas	Public Utility Commission of Texas	44746	Wind Energy Transmission Texas	2015	Electric Depreciation Study
Colorado	Colorado Public Utilities Commission	15-AL-0299G	Atmos Colorado	2015	Gas Depreciation Study
Arkansas	Arkansas Public Service Commission	15-011-U	Source Gas Arkansas	2015	Gas Depreciation Study
Texas	Railroad Commission of Texas	GUD 10432	CenterPoint- Texas Coast Division	2015	Gas Depreciation Study
Kansas	Kansas Corporation Commission	15-KCPE-116-RTS	Kansas City Power and Light	2015	Electric Depreciation Study
Alaska	Regulatory Commission of Alaska	U-14-120	Alaska Electric Light and Power	2014-2015	Electric Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Texas	Public Utility Commission of Texas	43950	Cross Texas Transmission	2014	Electric Depreciation Study
New Mexico	New Mexico Public Regulation Commission	14-00332-UT	Public Service of New Mexico	2014	Electric Depreciation Study
Texas	Public Utility Commission of Texas	43695	Xcel Energy	2014	Electric Depreciation Study
Multi State – SE US	FERC	RP15-101	Florida Gas Transmission	2014	Gas Transmission Depreciation Study
California	California Public Utilities Commission	A.14-07-006	Golden State Water	2014	Water and Waste Water Depreciation Study
Michigan	Michigan Public Service Commission	U-17653	Consumers Energy Company	2014	Electric and Common Depreciation Study
Colorado	Public Utilities Commission of Colorado	14AL-0660E	Public Service of Colorado	2014	Electric Depreciation Study
Wisconsin	Wisconsin	05-DU-102	WE Energies	2014	Electric, Gas, Steam and Common Depreciation Studies

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Texas	Public Utility Commission of Texas	42469	Lone Star Transmission	2014	Electric Depreciation Study
Nebraska	Nebraska Public Service Commission	NG-0079	Source Gas Nebraska	2014	Gas Depreciation Study
Alaska	Regulatory Commission of Alaska	U-14-055	TDX North Slope Generating	2014	Electric Depreciation Study
Alaska	Regulatory Commission of Alaska	U-14-054	Sand Point Generating LLC	2014	Electric Depreciation Study
Alaska	Regulatory Commission of Alaska	U-14-045	Matanuska Electric Coop	2014	Electric Generation Depreciation Study
Texas, New Mexico	Public Utility Commission of Texas	42004	Xcel Energy	2013-2014	Electric Production, Transmission, Distribution and General Plant Depreciation Study
New Jersey	Board of Public Utilities	GR13111137	South Jersey Gas	2013	Gas Depreciation Study
Various	FERC	RP14-247-000	Sea Robin	2013	Gas Depreciation Study
Arkansas	Arkansas Public Service Commission	13-078-U	Arkansas Oklahoma Gas	2013	Gas Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Arkansas	Arkansas Public Service Commission	13-079-U	Source Gas Arkansas	2013	Gas Depreciation Study
California	California Public Utilities Commission	Proceeding No.: A.13-11-003	Southern California Edison	2013	Electric Depreciation Study
Wisconsin	Public Service Commission of Wisconsin	4220-DU-108	Northern States Power-Wisconsin	2013	Electric, Gas and Common Transmission, Distribution and General
Texas	Public Utility Commission of Texas	41474	Sharyland	2013	Electric Depreciation Study
Kentucky	Kentucky Public Service Commission	2013-00148	Atmos Energy Corporation	2013	Gas Depreciation Study
Minnesota	Minnesota Public Utilities Commission	13-252	Allete Minnesota Power	2013	Electric Depreciation Study
New Hampshire	New Hampshire Public Service Commission	DE 13-063	Liberty Utilities	2013	Electric Distribution and General
Texas	Railroad Commission of Texas	10235	West Texas Gas	2013	Gas Depreciation Study
Alaska	Regulatory Commission of Alaska	U-12-154	Alaska Telephone Company	2012	Telecommunications Utility

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
New Mexico	New Mexico Public Regulation Commission	12-00350-UT	SPS	2012	Electric Depreciation Study
Colorado	Colorado Public Utilities Commission	12AL-1269ST	Public Service of Colorado	2012	Gas and Steam Depreciation Study
Colorado	Colorado Public Utilities Commission	12AL-1268G	Public Service of Colorado	2012	Gas and Steam Depreciation Study
Alaska	Regulatory Commission of Alaska	U-12-149	Municipal Power and Light City of Anchorage	2012	Electric Depreciation Study
Texas	Texas Public Utility Commission	40824	Xcel Energy	2012	Electric Depreciation Study
South Carolina	Public Service Commission of South Carolina	Docket 2012-384-E	Progress Energy Carolina	2012	Electric Depreciation Study
Alaska	Regulatory Commission of Alaska	U-12-141	Interior Telephone Company	2012	Telecommunications Utility
Michigan	Michigan Public Service Commission	U-17104	Michigan Gas Utilities Corporation	2012	Gas Depreciation Study
North Carolina	North Carolina Utilities Commission	E-2 Sub 1025	Progress Energy Carolina	2012	Electric Depreciation Study
Texas	Texas Public Utility Commission	40606	Wind Energy Transmission Texas	2012	Electric Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Texas	Texas Public Utility Commission	40604	Cross Texas Transmission	2012	Electric Depreciation Study
Minnesota	Minnesota Public Utilities Commission	12-858	Minnesota Northern States Power	2012	Electric, Gas and Common Transmission, Distribution and General
Texas	Railroad Commission of Texas	10170	Atmos Mid-Tex	2012	Gas Depreciation Study
Texas	Railroad Commission of Texas	10174	Atmos West Texas	2012	Gas Depreciation Study
Texas	Railroad Commission of Texas	10182	CenterPoint Beaumont/ East Texas	2012	Gas Depreciation Study
Kansas	Kansas Corporation Commission	12-KCPE-764-RTS	Kansas City Power and Light	2012	Electric Depreciation Study
Nevada	Public Utility Commission of Nevada	12-04005	Southwest Gas	2012	Gas Depreciation Study
Texas	Railroad Commission of Texas	10147, 10170	Atmos Mid-Tex	2012	Gas Depreciation Study
Kansas	Kansas Corporation Commission	12-ATMG-564-RTS	Atmos Kansas	2012	Gas Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Texas	Texas Public Utility Commission	40020	Lone Star Transmission	2012	Electric Depreciation Study
Michigan	Michigan Public Service Commission	U-16938	Consumers Energy Company	2011	Gas Depreciation Study
Colorado	Public Utilities Commission of Colorado	11AL-947E	Public Service of Colorado	2011	Electric Depreciation Study
Texas	Texas Public Utility Commission	39896	Entergy Texas	2011	Electric Depreciation Study
MultiState	FERC	ER12-212	American Transmission Company	2011	Electric Depreciation Study
California	California Public Utilities Commission	A1011015	Southern California Edison	2011	Electric Depreciation Study
Mississippi	Mississippi Public Service Commission	2011-UN-184	Atmos Energy	2011	Gas Depreciation Study
Michigan	Michigan Public Service Commission	U-16536	Consumers Energy Company	2011	Wind Depreciation Rate Study
Texas	Public Utility Commission of Texas	38929	Oncor	2011	Electric Depreciation Study
Texas	Railroad Commission of Texas	10038	CenterPoint South TX	2010	Gas Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Alaska	Regulatory Commission of Alaska	U-10-070	Inside Passage Electric Cooperative	2010	Electric Depreciation Study
Texas	Public Utility Commission of Texas	36633	City Public Service of San Antonio	2010	Electric Depreciation Study
Texas	Texas Railroad Commission	10000	Atmos Pipeline Texas	2010	Gas Depreciation Study
Multi State – SE US	FERC	RP10-21-000	Florida Gas Transmission	2010	Gas Depreciation Study
Maine/ New Hampshire	FERC	10-896	Granite State Gas Transmission	2010	Gas Depreciation Study
Texas	Public Utility Commission of Texas	38480	Texas New Mexico Power	2010	Electric Depreciation Study
Texas	Public Utility Commission of Texas	38339	CenterPoint Electric	2010	Electric Depreciation Study
Texas	Texas Railroad Commission	10041	Atmos Amarillo	2010	Gas Depreciation Study
Georgia	Georgia Public Service Commission	31647	Atlanta Gas Light	2010	Gas Depreciation Study
Texas	Public Utility Commission of Texas	38147	Southwestern Public Service	2010	Electric Technical Update
Alaska	Regulatory Commission of Alaska	U-09-015	Alaska Electric Light and Power	2009-2010	Electric Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Alaska	Regulatory Commission of Alaska	U-10-043	Utility Services of Alaska	2009-2010	Water Depreciation Study
Michigan	Michigan Public Service Commission	U-16055	Consumers Energy/DTE Energy	2009-2010	Ludington Pumped Storage Depreciation Study
Michigan	Michigan Public Service Commission	U-16054	Consumers Energy	2009-2010	Electric Depreciation Study
Michigan	Michigan Public Service Commission	U-15963	Michigan Gas Utilities Corporation	2009	Gas Depreciation Study
Michigan	Michigan Public Service Commission	U-15989	Upper Peninsula Power Company	2009	Electric Depreciation Study
Texas	Railroad Commission of Texas	9869	Atmos Energy	2009	Shared Services Depreciation Study
Mississippi	Mississippi Public Service Commission	09-UN-334	CenterPoint Energy Mississippi	2009	Gas Depreciation Study
Texas	Railroad Commission of Texas	9902	CenterPoint Energy Houston	2009	Gas Depreciation Study
Colorado	Colorado Public Utilities Commission	09AL-299E	Public Service of Colorado	2009	Electric Depreciation Study
Louisiana	Louisiana Public Service Commission	U-30689	Cleco	2008	Electric Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Texas	Public Utility Commission of Texas	35763	SPS	2008	Electric Production, Transmission, Distribution and General Plant Depreciation Study
Wisconsin	Wisconsin	05-DU-101	WE Energies	2008	Electric, Gas, Steam and Common Depreciation Studies
North Dakota	North Dakota Public Service Commission	PU-07-776	Northern States Power	2008	Net Salvage
New Mexico	New Mexico Public Regulation Commission	07-00319-UT	SPS	2008	Testimony – Depreciation
Multiple States	Railroad Commission of Texas	9762	Atmos Energy	2007-2008	Shared Services Depreciation Study
Minnesota	Minnesota Public Utilities Commission	E015/D-08-422	Minnesota Power	2007-2008	Electric Depreciation Study
Texas	Public Utility Commission of Texas	35717	Oncor	2008	Electric Depreciation Study
Texas	Public Utility Commission of Texas	34040	Oncor	2007	Electric Depreciation Study

Asset Location	Commission	Docket (If Applicable	Company	Year	Description
Michigan	Michigan Public Service Commission	U-15629	Consumers Energy	2006-2009	Gas Depreciation Study
Colorado	Colorado Public Utilities Commission	06-234-EG	Public Service of Colorado	2006	Electric Depreciation Study
Arkansas	Arkansas Public Service Commission	06-161-U	CenterPoint Energy – Arkla Gas	2006	Gas Distribution Depreciation Study and Removal Cost Study
Texas, New Mexico	Public Utility Commission of Texas	32766	Xcel Energy	2005-2006	Electric Production, Transmission, Distribution and General Plant Depreciation Study
Texas	Railroad Commission of Texas	9670/9676	Atmos Energy Corp	2005-2006	Gas Distribution Depreciation Study

EXHIBIT DAW-R-2

Atmos Kentucky
Depreciation Study as of September 30, 2014
Comparison of Proposals

Account	Description	Plant In Service 9/30/2014	Allocated Book Depreciation 9/30/2014	As Filed Net Salvage %	AG Adjusted Net Salvage %	As Filed Rate w Rsv Alloc	As Filed Accrual w Rsv Alloc	AG Kollen Rate No Alloc	AG Kollen Accrual No Alloc	Difference Atmos Kollen	AG Kollen W Rsv Alloc	AG Kollen W Rsv Alloc	Difference Atmos Kollen Alloc	Difference Kollen Filed & Alloc
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(I)	(j)	(k)	(l)	(m)
STORAGE PLANT							f=(a*e)		h=(a*g)	i=(h-f)		k=(a*j)	l=(k-f)	m=(k-h)
35020	Rights-Of-Way	$ 4,681.58	$ 4,489.58	0%	0%	0.25%	11.78	0.25%	11.78	-	0.00%	$ -	$ (11.78)	$ (11.78)
35100	Structures And Improvements	17,916.19	4,801.21	-5%	9%	1.67%	299.64	1.37%	246.00	(53.64)	1.40%	250.17	(49.47)	4.17
35102	Compressor Station Equipment	153,261.30	106,869.72	-5%	0%	1.26%	1,931.44	1.08%	1,657.63	(273.81)	1.18%	1,812.85	(118.59)	155.22
35103	M&R. Structures	23,138.38	19,902.19	-5%	0%	0.92%	212.60	0.68%	156.61	(55.99)	0.45%	104.38	(108.22)	(52.23)
35104	Other Structures	137,442.53	93,318.67	-5%	15%	1.30%	1,787.00	0.60%	823.75	(963.25)	0.85%	1,163.51	(623.48)	339.77
35200	Wells	5,870,417.93	692,694.72	-30%	-2%	1.93%	113,193.46	1.47%	86,379.50	(26,813.96)	1.50%	87,865.15	(25,328.31)	1,485.65
35201	Well Construction	1,699,998.54	1,323,427.96	-30%	-8%	1.51%	25,740.01	0.88%	14,881.58	(10,858.42)	1.06%	17,970.24	(7,769.77)	3,088.65
35202	Well Equipment	424,750.24	468,302.73	-30%	-23%	0.93%	3,937.04	0.60%	2,541.37	(1,395.66)	0.35%	1,500.73	(2,436.31)	(1,040.64)
35203	Cushion Gas	1,694,832.96	613,056.50	0%	0%	1.80%	30,472.58	1.80%	30,472.58	-	1.69%	28,625.73	(1,846.84)	(1,846.84)
35210	Storage Leaseholds An	178,530.09	168,277.06	0%	0%	0.35%	630.45	0.35%	630.45	-	0.07%	122.47	(507.98)	(507.98)
35211	Storage Rights	54,614.27	42,652.15	0%	0%	0.88%	480.44	0.88%	480.44	-	0.54%	297.24	(183.20)	(183.20)
35300	Storage Field Lines	387,955.11	335,918.65	-5%	-5%	0.81%	3,126.48	0.81%	3,126.48	-	0.40%	1,554.16	(1,572.32)	(1,572.32)
35400	Compressor Station Equipment	923,446.05	428,968.84	-5%	0%	1.80%	16,654.90	1.65%	15,232.54	(1,422.35)	1.65%	15,241.68	(1,413.22)	9.13
35500	Measuring & Regulating	240,883.03	200,648.71	0%	-1%	0.51%	1,223.21	0.54%	1,296.44	73.23	0.32%	765.62	(457.59)	(530.83)
35600	Purification Equipment	414,663.45	152,275.44	-4%	-1%	2.05%	8,481.41	1.95%	8,103.21	(378.20)	1.86%	7,707.62	(773.79)	(395.59)
	Total Storage	12,226,531.65	4,655,604.12			1.70%	208,182.42	1.36%	166,040.36	(42,142.06)	1.35%	164,981.54	(43,200.88)	(1,058.82)
TRANSMISSION PLANT														
36520	Rights-Of-Way	867,772.00	369,967.75	0%	0%	1.33%	11,525.96	1.33%	11,525.96	-	1.17%	10,141.23	(1,384.74)	(1,384.74)
36600	Meas. & Reg. Sta. Structures	109,828.01	60,885.35	-6%	-2%	1.78%	1,959.63	1.64%	1,804.60	(155.02)	1.41%	1,551.47	(408.16)	(253.13)
36700	Mains - Cathodic Protection	185,508.80	105,285.07	0%	-8%	5.00%	9,275.44	5.92%	10,991.32	1,715.88	5.40%	10,017.48	742.04	(973.84)
36701	Mains - Steel	27,845,816.36	17,001,621.84	-20%	-3%	1.89%	527,060.11	1.35%	375,050.31	(152,009.80)	1.35%	376,641.33	(150,418.78)	1,591.02
36900	Measuring And Reg. Station	2,888,542.89	1,839,130.44	-19%	-1%	2.14%	61,796.86	1.44%	41,693.12	(20,103.74)	1.48%	42,692.87	(19,104.00)	999.75
	Total Transmission	31,897,468.06	19,376,890.46			1.92%	611,618.00	1.38%	441,065.31	(170,552.69)	1.38%	441,044.36	(170,573.64)	(20.95)
DISTRIBUTION PLANT														
37402	Land Rights	333,416.21	63,226.00	0%	0%	1.46%	4,852.29	1.46%	4,852.29	-	1.42%	4,731.17	(121.12)	(121.12)
37500	Structures & Improvements	486,581.76	192,453.88	-10%	-2%	2.06%	10,031.68	1.83%	8,892.49	(1,139.19)	1.80%	8,745.02	(1,286.66)	(147.47)
37600	Mains - Cathodic Protection	20,715,876.26	10,316,480.37	0%	-2%	5.00%	1,035,793.81	5.20%	1,077,060.40	41,266.58	5.10%	1,056,509.69	20,715.88	(20,550.71)
37601-02	Mains - Steel & Plastic	144,594,423.21	37,389,112.41	-5%	-3%	2.09%	3,029,139.94	2.04%	2,952,590.53	(76,549.42)	1.98%	2,867,882.80	(161,257.14)	(84,707.72)
37800	M&R Station Equipment	5,234,987.30	1,775,607.95	-19%	-2%	2.89%	151,266.42	2.31%	121,042.26	(30,224.16)	2.37%	124,143.45	(27,122.96)	3,101.20
37900	M&R Equipment-City Gate	4,113,777.77	1,537,683.42	-19%	-3%	2.86%	117,853.41	2.30%	94,750.88	(23,102.53)	2.36%	97,024.57	(20,828.84)	2,273.69
38000	Services	102,590,800.63	39,951,886.46	-20%	-13%	3.47%	3,559,713.32	3.17%	3,252,300.29	(307,413.04)	3.10%	3,180,278.19	(379,435.13)	(72,022.10)
38100	Meters	22,987,935.79	15,270,627.19	-50%	0%	8.30%	1,907,793.64	3.33%	766,374.49	(1,141,419.15)	5.06%	1,164,023.34	(743,770.30)	397,648.85
38200	Meter Installations	50,095,568.21	21,893,772.49	-50%	-27%	4.13%	2,070,337.29	3.24%	1,622,364.06	(447,973.23)	3.35%	1,676,009.11	(394,328.18)	53,645.05
38300	House Regulators	7,896,127.45	3,294,552.98	0%	-3%	3.14%	247,996.53	3.30%	260,763.11	12,766.58	2.99%	235,928.63	(12,067.90)	(24,834.48)
38400	House Regulator Installations	154,276.36	77,530.14	0%	0%	2.35%	3,627.39	2.35%	3,627.39	-	2.09%	3,223.07	(404.32)	(404.32)
38500	Industrial Measuring	5,196,745.91	2,512,458.15	-12%	0%	2.71%	140,609.78	2.20%	114,101.82	(26,507.96)	2.22%	115,373.07	(25,236.71)	1,271.25
	Total Distribution	364,400,516.86	134,275,391.45			3.37%	12,279,015.51	2.82%	10,278,720.00	(2,000,295.50)	2.89%	10,533,872.12	(1,745,143.39)	255,152.11
GENERAL PLANT DEPRECIATED														
39000	Structures & Improvements	3,044,825.53	334,947.65	-10%	0%	3.76%	114,516.43	3.38%	102,949.05	(11,567.38)	3.41%	103,819.39	(10,697.04)	870.34
39009	Improvements - Leased	1,279,375.74	555,484.86	0%	0%	18.71%	239,309.46	18.71%	239,309.46	-	18.35%	234,762.09	(4,547.37)	(4,547.37)
39200	Transportation Equipment	417,941.26	84,941.51	10%	43%	15.14%	63,292.42	7.97%	33,315.91	(29,976.52)	9.52%	39,795.66	(23,496.76)	6,479.76
39202	Wkg Trailers	33,191.91	10,959.23	14%	13%	9.95%	3,302.66	10.14%	3,364.99	62.34	9.91%	3,289.50	(13.16)	(75.49)
39600	Power Operated Equipment	149,686.89	57,612.55	8%	13%	19.47%	29,151.24	17.66%	26,427.40	(2,723.84)	18.09%	27,075.94	(2,075.30)	648.54
	Total General Depreciated	4,925,021.33	1,043,945.80			9.13%	449,572.22	8.23%	405,366.82	(44,205.40)	8.30%	408,742.59	(40,829.63)	3,375.78
	Total Study Depreciated	$ 413,449,537.90	$ 159,351,831.83			3.28%	$ 13,548,388.15	2.73%	$ 11,291,192.49	$ (2,257,195.66)	2.79%	$ 11,548,640.61	$ (1,999,747.53)	$ 257,448.13
							Atmos Filed		**Kollen Filed**			**Kollen Adj for Reserve Allocation**		