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January 26, 2018

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

Re: Atmos Energy Corporation:
Case No. 2017-00481

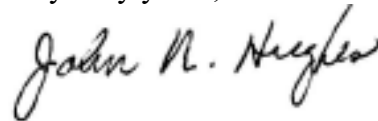
Dear Ms. Pinson:

Atmos Energy Corporation submits its response to the Order of December 27, 2017.

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

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

Very truly yours,



John N. Hughes

And

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

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

**AN INVESTIGATION OF THE IMPACT OF THE)
TAX CUTS AND JOBS ACT ON THE RATES OF)
ATMOS ENERGY CORPORATION, DELTA)
NATURAL GAS COMPANY, INC., COLUMBIA) CASE NO. 2017-00481
OF KENTUCKY, INC., KENTUCKY-AMERICAN)
WATER COMPANY, AND WATER SERVICE)
CORPORATION OF KENTUCKY)**

TESTIMONY OF JOE T. CHRISTIAN

I. INTRODUCTION

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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. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. I am responsible for leading and directing the rates and regulatory activity in Atmos Energy’s eight-state service area. This responsibility includes developing the strategy, preparing the revenue deficiency filings, and managing the overall ratemaking process for the Company. For the past 16 years, I have managed Company-specific dockets and other commission proceedings in Colorado, Kansas, Kentucky, Louisiana, Mississippi, Tennessee, and Texas. I also managed Company-

1 specific dockets in Georgia, Illinois, Iowa, and Missouri relating to regulated assets
2 that the Company has since sold.

3 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
4 **PROFESSIONAL EXPERIENCE.**

5 A. I graduated from East Texas State University in 1985 with a Bachelor of Business
6 Administration Degree, majoring in Accounting. In 1987, I received a Masters of
7 Business Administration from East Texas State University. I am a Certified Public
8 Accountant in the State of Texas and a member of the American Institute of
9 Certified Public Accountants.

10 My professional experience includes approximately two years of public
11 accounting experience with a large local accounting firm based in Dallas, Texas. In
12 1989, I accepted a position in the internal audit group with Atmos Energy. I was
13 promoted to positions of increasing responsibility within the Atmos Energy finance
14 team during my first nine years with the Company. I joined Atmos Energy's
15 Colorado-Kansas operations as Vice President & Controller in June of 1998 and,
16 effective December 1, 2001, was named Vice President of Rates & Regulatory
17 Affairs. I assumed my current position on August 1, 2007.

18 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

19 A. Yes. I am licensed by the State of Texas as a Certified Public Accountant ("CPA").

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY**
2 **PUBLIC SERVICE COMMISSION OR OTHER REGULATORY**
3 **ENTITIES?**

4 A. Yes. I have submitted testimony in 2017-0349 that is currently pending before the
5 Kentucky Public Service Commission. I have submitted testimony before the
6 Kansas Corporation Commission (“KCC”) in five general rate case proceedings¹
7 and provided oral comments to the KCC in a rules investigation.² I have also
8 submitted testimony before the Mississippi Public Service Commission to amend
9 our tariffs to add a supplemental growth rider,³ to amend our formula rate tariff to
10 establish a system integrity plan and establish a rural development pilot program,⁴
11 and to request a system integrity rider and support our capital budget for 2015
12 through 2024.⁵ I have also submitted testimony before the Louisiana Public Service
13 Commission to amend our formula rate making tariffs to reduce lag related to
14 system integrity investment.⁶ Finally, I filed testimony before the Colorado Public
15 Utilities Commission numerous times, including the Company’s prior general rate
16 case proceedings;⁷ gas prudence reviews;⁸ a Phase II class cost of service/rate
17 design proceeding;⁹ a transportation terms & conditions proceeding;¹⁰ an upstream

¹ Docket Nos. 03-ATMG-1036-RTS, 08-ATMG-280-RTS, 10-ATMG-495-RTS, 12-ATMG-564-RTS, 14-ATMG-320-RTS.

² Docket No. 02-GIMX-211-GIV, General Investigation of the Cold Weather Rule.

³ Docket No. 2013-UN-023.

⁴ Docket No. 2014-UN-117.

⁵ Docket No. 2015-UN-049.

⁶ Docket No. U-32987.

⁷ Proceeding Nos. 00S-668G, 09AL-507G, 13AL-0496G, 14AL-0300G, 15AL-0299G, 17AL-0429G.

⁸ Proceeding Nos. 00P-296G and 03P-229G.

⁹ Proceeding No. 02S-411G.

¹⁰ Proceeding No. 02S-442G.

1 gas transportation matter;¹¹ a complaint proceeding regarding upstream gas
2 transportation;¹² an Advanced Metering Infrastructure surcharge matter;¹³ a
3 proposal to extend the pilot related to recovering uncollectible gas costs through
4 the Gas Cost Adjustment (“GCA”) mechanism;¹⁴ the Company’s proposal to put
5 into effect a System Safety and Integrity Plan;¹⁵ and the Company’s application for
6 a Certificate of Public Convenience and Necessity to implement the Greeley
7 Building Project.¹⁶

8 **II. PURPOSE OF TESTIMONY & INTRODUCTION OF WITNESS**

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. I will introduce the other witness for Atmos Energy as well as address certain
12 aspects of the Commission’s order issued in Case No. 2017-00481 on December
13 27, 2017 (“Dec 27th Order”) initiating an investigation of the impact of the Tax Cuts
14 and Job Act (“TCJA”) on the rates of Atmos Energy and other Kentucky investor
15 owned utilities. Specifically, I will (1) address the savings resulting from the
16 January 1, 2018 tax reduction and the impact on cost of service based rates (2) the
17 appropriate level of reductions in utility rates to reflect the reduced federal
18 corporate tax rate.

¹¹ Proceeding No. 04A-275G.

¹² Proceeding No. 08F-033G.

¹³ Proceeding No. 10AL-822G.

¹⁴ Proceeding No. 12AL-1003G.

¹⁵ Proceeding No. 12AL-1139G.

¹⁶ Proceeding No. 13A-0153G.

1 **Q. PLEASE IDENTIFY THE COMPANY’S OTHER WITNESS SPONSORING**
2 **TESTIMONY IN THIS PROCEEDING?**

3 A. In addition to my testimony, Atmos Energy will present the direct testimony of Ms.
4 Jennifer K. Story. Ms. Story is employed by Atmos Energy as Director of Income
5 Tax and will address (1) discuss the impact of the reduction in federal corporate tax
6 rate resulting from the TCJA on the Company’s financial operations; (2) describe
7 the Company’s recording of a deferred liability on its books to reflect the reduction
8 in the federal corporate tax rate; (3) explain the timing of when the Company will
9 provide copies of accounting entries made to reflect the deferred liabilities.

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

11 A. Yes. Exhibit JTC-1 Base Rates and Exhibit JTC-2 PRP Rates are sponsored by me.

12 **III. SAVINGS CREATED BY TCJA AND IMPACT ON**
13 **COST OF SERVICE BASED RATES**

14 **Q. ARE FEDERAL INCOME TAXES REFLECTED IN COST OF SERVICE**
15 **BASED RATES?**

16 A. Yes. As the Dec 27th Order properly notes in the second paragraph, “...ratepayers
17 are required to pay through their rates the tax expense of a utility...”. Atmos Energy
18 base rates and Pipeline Replacement Program (“PRP”) rates include, among other
19 costs, federal income taxes; thus, a change in the statutory federal income tax rate
20 does have an impact on the overall cost of service of the Company.

1 **Q. DO YOU AGREE THAT THE COMPANY'S COST OF SERVICE BASED**
2 **RATES SHOULD BE ADJUSTED TO REFLECT THE CHANGE**
3 **RESULTING FROM TCJA?**

4 A. Yes. In fact the timing of the investigation started with the Dec 27th Order in
5 relation to the Company's proposed rate increase filed in Case No. 2017-0349 will
6 benefit our customers. The Attorney General's witness has introduced the topic in
7 its testimony filed on January 17, 2018, and the Company will incorporate the
8 comprehensive impacts of TCJA on the rate case in rebuttal to the AG's proposals
9 in Case No. 2017-0349. As a result, by May 6, 2018, when the suspension period
10 ends in Case No. 2017-0349, Kentucky customers served by Atmos Energy could
11 be receiving the full benefits of TCJA on their bill prospectively through base rates
12 and the PRP.

13 **Q. IS THERE A WAY TO BEGIN FLOWING BENEFITS BACK TO**
14 **CUSTOMERS BEFORE THE NEW RATES FROM THE RATE CASE GO**
15 **INTO EFFECT?**

16 A. Yes. As described later in my testimony, Atmos Energy is recording a deferred
17 liability to preserve for customers the benefit of the tax savings beginning January
18 1, 2018, through the effective date of the rates resulting from the pending rate case
19 (which will fully reflect the benefits of the tax savings going forward). However,
20 to provide customers with the benefits of TCJA while the details are worked out
21 Atmos Energy can, upon Commission order, put in place an interim rate adjustment
22 that flows back an estimated amount of savings to its customers through their bills.
23 To provide an estimate of the rates produced by the TCJA, I have included two

1 exhibits that compare existing base rates and PRP rates with the rates that would be
2 derived with a change of a federal corporate tax rate from 35 percent to 21 percent
3 applied to the cost of service models for these rates.

4 **Q. PLEASE DESCRIBE EXHIBIT JTC-1.**

5 A. Exhibit JTC-1 compares the base rates that result from updating for the single issue
6 of federal income tax change to the current rates being charged. In order to provide
7 this comparison of rates I utilized the deficiency model filed by the Company in
8 Case No. 2015-00343 with the adjustments applying the settlement parameters
9 related to rate of return for PRP purposes in addition to a minor adjustment to
10 operation and maintenance expense. The model was then revised to reflect the
11 single issue of federal income tax change from 35 percent to 21 percent. This
12 interim calculation results in a decrease in the rate adjustment of approximately
13 \$4.6 million on an annual basis.

14 **Q. PLEASE DESCRIBE EXHIBIT JTC-2?**

15 A. Exhibit JTC-2 compares the PRP rates that result from updating for the single issue
16 of federal income tax change to the current PRP rates being charged. In order to
17 provide this comparison of rates I utilized the Company's last rate PRP model filed
18 in Case No. 2017-00308 as a starting point. Similar to Exhibit JTC-1, Exhibit JTC-
19 2 contains the last PRP model updated to reflect the single issue of federal income
20 tax change from 35 percent to 21 percent. This interim calculation results in a
21 decrease in the PRP rate adjustment of approximately \$1.0 million on an annual
22 basis.

1 **Q. WHY DO YOU DESCRIBE EACH OF THESE CALCULATIONS AS**
2 **'INTERIM'?**

3 A. As noted in the Dec 27th Order, TCJA impact to rates cannot be determined with
4 precision at this time. The lack of precision is due in part to the interim calculations
5 excluding any amortization of excess deferred liabilities. The interim calculations
6 also do not reflect the full cost of providing service as of December 31, 2017.
7 While these calculations can be used for the purpose of putting in place interim
8 rates, the final determination of the amount of net savings for the time period of
9 January 1 through the effective date of new base rates that should be flowed back
10 to customers through their rates should be determined in this docket once all
11 information necessary to make that determination is available. Thus, as described
12 more fully below, the Company proposes that the Commission establish a full
13 procedural schedule to make this determination.

14 **Q. IF THE COMMISSION CHOOSES TO DIRECT THE COMPANY TO PUT**
15 **INTERIM RATES IN PLACE, WOULD THE COMPANY PUT THE RATES**
16 **SHOWN IN EXHIBIT JTC-1 AND EXHIBIT JTC-2 IN PLACE?**

17 A. Yes. As noted above, the impact on the Company's cost of service rates (including
18 both base rates and the PRP) in Kentucky using the methodology described in my
19 testimony is estimated to be \$5.6 million annually. If ordered by the Commission,
20 Atmos Energy would use the rates reflected in Exhibits JTC-1 and JTC-2, which
21 are the rates calculated based on the \$5.6 million annual savings to reduce customer
22 bills each month that the interim rate is in effect.

1 **Q. YOU MENTION, “IF ORDERED BY THE COMMISSION.” PLEASE**
2 **CLARIFY.**

3 A. The Company cannot change rates without authorization by the Commission.
4 However, it is the Company’s understanding from reading the Dec 27th Order that
5 the Commission desires TCJA savings to be reflected on customer bills in an
6 expeditious fashion while balancing the needs of both the customer and the
7 Company to allow for due process considerations. We have calculated the rates
8 with the most substantial portion of TCJA savings and believes the rates proposed
9 in Exhibits JTC-1 and JTC-2 meet the Commission’s intent. Furthermore, we
10 would propose that rates be implemented on a first of the month basis so that all
11 customers get the same benefit, but we can reflect the savings as soon as the
12 Commission desires.

13 **Q. HOW WOULD THOSE RATES BE REFLECTED ON CUSTOMERS’**
14 **BILLS?**

15 A. The Company would propose that, rather than appearing as a separate line item, the
16 reduction would be applied to the base rate and PRP charges on customers’ bills, so
17 that current customer bills would go down while the interim rates are in place. Then
18 those base rates would change again to reflect the outcome of the rate case, which
19 will include the savings from the tax changes going forward. Since new base rates
20 from Case No. 2017-0349 will be implemented in early May 2018, showing a line
21 item on the customer bill for only one or two months would likely create confusion.

1 **Q. IS ATMOS ENERGY TAKING ACTION TO ENSURE THAT CUSTOMERS**
2 **WILL RECEIVE THE BENEFIT OF THE CHANGE BETWEEN JANUARY**
3 **1, 2018 AND MAY 6, 2018?**

4 A. Yes. Pursuant to the Dec 27th Order, Ordering Paragraph 2, Atmos Energy is
5 preserving the benefit for customers by, "...recording deferred liabilities on [its]
6 books for gas...to reflect the reduction in the federal corporate tax rate..."

7 **Q. HOW IS THE COMPANY RECORDING THIS DEFERRED LIABILITY?**

8 A. Initially the Company is looking at the models utilized in preparing Exhibit JTC-1
9 and Exhibit JTC-2 to estimate the appropriate deferred liability. The liability will
10 be recorded on the Company's books and records from January 1, 2018, through
11 the effective date of the new base rates. If the Commission chooses to have the
12 Company put interim rates, as discussed above, in place to credit customers with
13 savings in the time period before the new base rates are effective, the deferred
14 liability will be reduced by the amounts credited through that interim rate change.
15 Once a comprehensive cost of service model for a test period ending December 31,
16 2017, is completed and the Company has a more precise calculation of the full cost
17 of providing service, the initial reserve entry will be adjusted to reflect the full cost
18 of service.

19 **Q. WHY DOES REFLECTING THE FULL COST OF SERVICE NEED TO BE**
20 **CONSIDERED WHEN EVALUATING THE STATUTORY RATE**
21 **CHANGE?**

22 A. As noted in paragraph 2 of the Dec 27th Order, "Utility rates must be set at a level
23 to allow a utility to recover all of its reasonable expenses, including taxes, and to

1 provide its shareholders an opportunity to earn a fair return on invested capital.” If
2 the recording of a deferred liability and ultimate credit to customers of this reserve
3 does not reflect the full cost of service, then the Company will be unable to have an
4 opportunity to recover its costs and earn a fair return on its invested capital.

5 **Q. WHAT WILL BE THE PROCESS FOR DETERMINING THE**
6 **APPROPRIATE AMOUNT OF DEFERRED LIABILITY TO BE**
7 **RETURNED TO THE CUSTOMER AND THE MANNER IN WHICH IT**
8 **SHOULD BE RETURNED?**

9 A. Because this determination deals with a one-time event over a discrete time period
10 and thus cannot be appropriately handled through a general rate case setting
11 prospective rates, the Company proposes that the Commission establish a full
12 procedural schedule in this docket to permit testimony to be filed in support of the
13 Company’s proposed deferred liability amount due customers, for intervenors to
14 respond, a possible settlement to be filed and final order to be issued directing
15 customers to receive any credit due over a period to be determined.

16 **Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING THE IMPACT**
17 **ON TCJA ON CUSTOMER RATES?**

18 A. Yes. While the TCJA was signed into law long after the Company’s direct
19 testimony was filed in Case No. 2017-00349, the Company did propose an Annual
20 Review Mechanism (“ARM”) in the direct testimony of Company Witness Waller.
21 The Company’s ARM proposal does provide for a fully transparent review and
22 reconciliation process that will allow the Company’s rates to reflect adjustments
23 similar to those created by TCJA based on actual results. Thus the change in tax

1 rates implemented by the TCJA would be “trued-up” in the ARM and all the
2 benefits of the tax change would flow through to the Company’s customers.

3 **IV. ESTIMATED LEVEL OF FEDERAL INCOME TAX DUE TO TCJA**

4 **Q. WHEN WILL THE COMPANY BE ABLE TO FILE A HISTORICAL 12-**
5 **MONTH PERIOD COST OF SERVICE MODEL PURSUANT TO**
6 **ORDERING PARAGRAPH 3?**

7 A. The Company’s books and records for the twelve month period ended December
8 31, 2017 will not be fully closed until earnings are released on February 6, 2018.
9 Once the books and records are closed, my department will work with the
10 Company’s accounting and tax professionals to extract and complete a cost of
11 service model as expeditiously as possible.

12 **Q. HOW LONG DOES IT TAKE TO COMPLETE A COST OF SERVICE**
13 **MODEL?**

14 A. A comprehensive cost of service model, with supporting testimony, generally takes
15 about two to three months after test period end to complete.

16 **Q. HOW DOES THE COMPANY ENVISION COMPLYING WITH THE**
17 **COMMISSION’S ORDER IN REGARDS TO A HISTORICAL 12-MONTH**
18 **PERIOD?**

19 A. As suggested in the previous section, the Company believes the comprehensive
20 long-term impact of TCJA should be addressed in its ongoing rate case. In order
21 to fully address the limited issues identified in ordering paragraph 3 of the Dec 27th,
22 in particular the appropriate amount to be deferred in a regulatory liability for the
23 time period between January 1, 2018, and the effective date of the new base rates,

1 the Company requests that it be permitted to file its historical 12-month period
2 model in this docket and supporting testimony no later than April 1, 2018. As part
3 of this proposed April 1, 2018 filing, the Company will also address how any
4 regulatory liability be returned to customers.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**


6 A. Yes.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

APPLICATION OF ATMOS ENERGY)
CORPORATION FOR AN ADJUSTMENT) Case No. 2017-00481
OF RATES AND TARIFF MODIFICATIONS)

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 direct testimony of this affiant in Case No. 2017-00481, 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 direct pre-filed testimony.



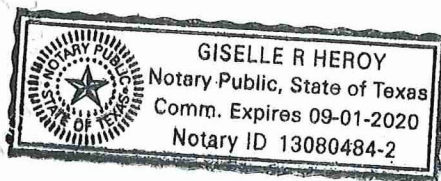
Joe T. Christian

STATE OF TEXAS
COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Joe T. Christian on this the 25th day of January, 2018.



Notary Public
My Commission Expires: 9/01/2020



**ATMOS ENERGY CORPORATION
BASE RATES**

BASE RATE SUMMARY - REFLECTING FIT RATE CHANGE

CASE NO. 2017-0000481 Base Rates with new FIT rate

Line Number	Tariff Schedule	Customer Charge	Volumetric Charge
1	RESIDENTIAL (Rate G-1)	\$ 16.52	
	Sales: 1-300 Mcf		1.4483
	Sales: 301-15000 Mcf		0.8969
	Sales: Over 15000		0.6987
2	NON-RESIDENTIAL (Rate G-1)	\$ 42.01	
	Sales: 1-300 Mcf		1.4483
	Sales: 301-15000 Mcf		0.8969
	Sales: Over 15000		0.6987
3	INTERRUPTIBLE (Rate G-2)	\$ 354.06	
4		Sales: 1-15,000	0.8025
5		Sales: Over 15,000	0.6405
6	TRANSPORTATION (T-3)	\$ 354.06	
7		Interrupt Transport: 1-15,000	0.8025
8		Interrupt Transport: Over 15,000	0.6405
9	TRANSPORTATION (T-4)	\$ 354.06	
10		Firm Transport: 1-300	1.4483
11		Firm Transport: 301-15,000	0.8969
12		Firm Transport: Over 15,000	0.6987

Current Base Rates

Line Number	Tariff Schedule	Customer Charge	Volumetric Charge
1	RESIDENTIAL (Rate G-1)	\$ 17.50	
	Sales: 1-300 Mcf		1.5340
	Sales: 301-15000 Mcf		0.9500
	Sales: Over 15000		0.7400
2	NON-RESIDENTIAL (Rate G-1)	\$ 44.50	
	Sales: 1-300 Mcf		1.5340
	Sales: 301-15000 Mcf		0.9500
	Sales: Over 15000		0.7400
3	INTERRUPTIBLE (Rate G-2)	\$ 375.00	
4		Sales: 1-15,000	0.8500
5		Sales: Over 15,000	0.6405
6	TRANSPORTATION (T-3)	\$ 375.00	
7		Interrupt Transport: 1-15,000	0.8500
8		Interrupt Transport: Over 15,000	0.6405
9	TRANSPORTATION (T-4)	\$ 375.00	
10		Firm Transport: 1-300	1.5340
11		Firm Transport: 301-15,000	0.9500
12		Firm Transport: Over 15,000	0.7400

**ATMOS ENERGY CORPORATION
KENTUCKY PIPE REPLACEMENT PROGRAM**

PRP SURCHARGE SUMMARY - REFLECTING FIT RATE CHANGE

CASE NO. 2017-0000481 PRP Rates with new FIT rate

Line Number	Tariff Schedule	Customer Charge	Volumetric Charge
1	RESIDENTIAL (Rate G-1)	\$ 2.97	0.0000
2	NON-RESIDENTIAL (Rate G-1)	\$ 9.97	0.0000
3	INTERRUPTIBLE (Rate G-2)	\$ 42.43	
4		Sales: 1-15,000	0.0746
5		Sales: Over 15,000	0.0562
6	TRANSPORTATION (T-3)	\$ 41.31	
7		Interrupt Transport: 1-15,000	0.0978
8		Interrupt Transport: Over 15,000	0.0737
9	TRANSPORTATION (T-4)	\$ 42.37	
10		Firm Transport: 1-300	0.1848
11		Firm Transport: 301-15,000	0.1144
12		Firm Transport: Over 15,000	0.0891

AS APPROVED CASE NO. 2017-00308 Current PRP Rates

Line Number	Tariff Schedule	Customer Charge	Volumetric Charge
1	RESIDENTIAL (Rate G-1)	\$ 3.29	0.0000
2	NON-RESIDENTIAL (Rate G-1)	\$ 11.04	0.0000
3	INTERRUPTIBLE (Rate G-2)	\$ 46.98	
4		Sales: 1-15,000	0.0826
5		Sales: Over 15,000	0.0622
6	TRANSPORTATION (T-3)	\$ 45.75	
7		Interrupt Transport: 1-15,000	0.1083
8		Interrupt Transport: Over 15,000	0.0816
9	TRANSPORTATION (T-4)	\$ 46.91	
10		Firm Transport: 1-300	0.2046
11		Firm Transport: 301-15,000	0.1267
12		Firm Transport: Over 15,000	0.0987

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

**AN INVESTIGATION OF THE IMPACT OF THE)
TAX CUTS AND JOBS ACT ON THE RATES OF)
ATMOS ENERGY CORPORATION, DELTA)
NATURAL GAS COMPANY, INC., COLUMBIA) CASE NO. 2017-00481
OF KENTUCKY, INC., KENTUCKY-AMERICAN)
WATER COMPANY, AND WATER SERVICE)
CORPORATION OF KENTUCKY)**

TESTIMONY OF JENNIFER K. STORY

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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. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

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.

1 **Q. WHAT ARE YOUR RESPONSIBILITIES AT ATMOS ENERGY?**

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

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

14 A. I submitted rebuttal testimony before the Colorado Public Utilities Commission in
15 Proceeding No. 15AL-0299G, the Mississippi Public Service Commission in
16 Docket No. 2015-UN-049, and the Texas Railroad Commission in GUD No. 10580
17 and GUD No. 10640 regarding income taxes. I also submitted direct testimony
18 before the Tennessee Rate Authority in Docket No. 17-00012 regarding income
19 taxes.

20 **II. PURPOSE OF TESTIMONY**

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY**

22 A. My testimony will respond to the Commission's order in Case No. 2017-00481
23 ("Dec. 27 Order"). Specifically, I will (1) address the impact of the reduction in

1 federal corporate tax rate resulting from the Tax Cuts and Jobs Act (“TCJA”) on
2 the Company’s financial operations and (2) explain the timing of when the
3 Company will be able to provide copies of accounting entries made to reflect the
4 deferred liabilities.

5 **III. DISCUSSION OF IMPACT OF THE REDUCTION IN FEDERAL**
6 **CORPORATE TAX RATE ON THE COMPANY’S FINANCIAL**
7 **OPERATIONS**

8 **Q. PLEASE PROVIDE A HIGH-LEVEL OVERVIEW OF THE IMPACTS OF**
9 **THE REDUCTION IN FEDERAL CORPORATE TAX RATE TO THE**
10 **COMPANY’S FINANCIAL OPERATIONS.**

11 A. As a result of the reduction in federal corporate tax rate, the Company must revalue
12 its Accumulated Deferred Income Taxes (“ADIT”), including Net Operating Loss
13 Carryforward (“NOLC”) using the new statutory tax rate. The excess deferred
14 taxes resulting from the reduction in the tax rate will result both in the establishment
15 of a regulatory liability and an impact to the Company’s fiscal year ended
16 September 30, 2018 earnings. I will discuss both of these impacts in my testimony.
17 In addition, the Company will take into account the tax rate change when
18 calculating current year earnings. Additional complexity exists because Atmos
19 Energy is a fiscal year taxpayer with a fiscal year ended September 30.

20 **Q. WHAT IS ADIT?**

21 A. Deferred taxes represent the balance of tax that is due or receivable in the future
22 when items of income and expense are recognized for tax purposes in a period
23 different than they are recognized for financial reporting purposes. Accumulated
24 deferred income taxes (“ADIT”) simply represent the accumulated tax for all items

1 deferred to future periods. For a regulated utility's ratemaking purposes, deferred
2 taxes are treated as a source of cost-free financing provided by the government.

3 **Q. HOW ARE DEFERRED TAXES TREATED FOR RATEMAKING**
4 **PURPOSES?**

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

10 **Q. WHAT ADJUSTMENTS TO ADIT WILL THE COMPANY HAVE TO**
11 **MAKE AS A RESULT OF THE REDUCTION IN FEDERAL CORPORATE**
12 **TAX RATES?**

13 A. As a result of the reduction in federal corporate tax rates, the Company will revalue
14 the ADIT on its books at the new statutory rate. The reduction in the federal
15 statutory rate reduces the future tax liabilities for which the Company has deferred
16 tax liabilities recorded. In other words, the amount recorded on the Company's
17 books prior to the tax law change is in excess of what the Company expects to pay
18 the government in the future. The Company will establish a regulatory liability for
19 the excess deferred taxes associated with items in rate base for each of the eight
20 jurisdictions in which it operates. The Company will also have to determine how to
21 amortize this regulatory liability back to customers in a manner that conforms with
22 the Internal Revenue Code and the regulators in each jurisdiction.

1 **Q. DOES THE INTERNAL REVENUE CODE SPECIFY HOW THE**
2 **REGULATORY LIABILITY FOR EXCESS DEFERRED TAXES SHOULD**
3 **BE AMORTIZED TO CUSTOMERS?**

4 A. Yes. The IRC requires that “protected” excess deferred tax liabilities be amortized
5 back to customers using the Average Rate Assumption Method (“ARAM”).

6 **Q. PLEASE DESCRIBE WHAT CREATES PROTECTED EXCESS**
7 **DEFERRED TAX LIABILITIES.**

8 A. Protected excess deferred tax liabilities are those excess deferred taxes created by
9 differences in method and lives for depreciation.

10 **Q. PLEASE DESCRIBE THE ARAM METHOD OF AMORTIZING THESE**
11 **EXCESS DEFERRED TAX LIABILITIES.**

12 A. ARAM amortizes the excess deferred tax liability back over the life of the
13 underlying property that gave rise to the excess. The annual amortization of the
14 regulatory liability for excess deferred taxes is the product of (i) the ratio of the
15 aggregate deferred taxes for the property to the aggregate timing differences for the
16 property (the applicable average rate), and (ii) the amount of the timing differences
17 that reverse during the year.

18 **Q. WHAT IS THE PENALTY FOR NOT COMPLYING WITH THE IRC**
19 **RULES FOR AMORTIZING PROTECTED EXCESS DEFERRED TAX**
20 **LIABILITIES?**

21 A. The Internal Revenue Service will assert a normalization violation for any taxpayer
22 who reduces the excess tax reserve more quickly than the reserve would be reduced
23 under the ARAM. A normalization violation results in the taxpayer’s tax for the

1 taxable year being increased by the amount by which it reduced the excess tax
2 reserve more quickly than permitted. In addition, the taxpayer would lose the
3 ability to deduct accelerated tax depreciation in the future.

4 **Q. WHAT WOULD HAPPEN IF THE COMPANY AMORTIZED ALL**
5 **EXCESS DEFERRED TAXES BACK TO CUSTOMERS OVER 20 YEARS**
6 **AS THE DECEMBER 27TH ORDER CONTEMPLATES?**

7 A. The use of an amortization period unsupported by ARAM calculations would not
8 be accepted by the Internal Revenue Service. As explained above, the Company's
9 protected excess deferred tax liabilities must be amortized using the ARAM. If the
10 Company were to instead amortize over 20 years as the Commission's December
11 27th Order suggests a normalization violation could be asserted and the severe tax
12 consequences I have described could occur. These consequences would be
13 detrimental to both the Company and its Kentucky customers.

14 **Q. WHY DOES THE COMPANY'S FISCAL YEAR END INTRODUCE**
15 **ADDITIONAL COMPLEXITY?**

16 A. The Company does not file taxes on a calendar year basis, but rather on a fiscal year
17 ending September 30th. Section 15 of the Internal Revenue Code requires that the
18 Company use a blended tax rate in the year of enactment if the enactment date does
19 not fall on the first day of the Company's fiscal year. This is the case for Atmos
20 Energy and so taxes calculated for the Company's fiscal year ending September 30,
21 2018 will be calculated using a blended tax rate. Accordingly, the Company's tax
22 rate for its current fiscal year is now neither 35% nor 21%, but is technically a
23 weighted average of those two rates proportional to the length of time each rate

1 was/is in effect. The Company's effective tax rate for its current fiscal year is
2 24.5%. This rate must be taken into account for current year earnings and for the
3 portion of ADIT expected to reverse during the current fiscal year.

4 **Q. HOW WILL THE COMPANY APPLY THIS BLENDED RATE?**

5 A. The Company will pay tax on all income earned during the current fiscal year at
6 24.5%. The statutory rate of 21% will not be fully effective for the Company until
7 the next fiscal year which begins October 1, 2018. The blended rate of 24.5% must
8 be used to revalue ADIT items which the Company expects to reverse during its
9 fiscal year ended September 30, 2018. This rate must also be applied to current year
10 earnings in calculating tax expense.

11 **IV. TIMING OF COMPLIANCE WITH COMMISSIONS**
12 **DECEMBER 27TH ORDER**

13 **Q. PLEASE EXPLAIN THE TIMING OF WHEN ACCOUNTING ENTRIES**
14 **TO ESTABLISH THE DEFERRED LIABILITIES WILL BE AVAILABLE**
15 **TO COMPLY WITH THE COMMISSION'S DECEMBER 27TH ORDER.**

16 A. After completion of and release of the Company's first quarter results, the
17 accounting entries made to reflect the deferred liabilities will be provided as
18 requested in the Dec. 27 Order.

19 **Q. PLEASE EXPLAIN WHY THE ACCOUNTING ENTRIES CANNOT BE**
20 **PROVIDED BY THE DATE OF THIS TESTIMONY.**

21 A. The TCJA happened very close to the end of the Company's first fiscal quarter. The
22 process of analyzing and calculating the financial statement impacts resulting from
23 the TCJA has been complex and resource intensive. Also, the fact that the Company

1 is a fiscal year filer presents challenges associated with the transition that are not
2 being experienced by calendar year filers.

3 **Q. WHEN DOES THE COMPANY TYPICALLY FILE ITS 10-Qs?**

4 A. Traditionally, the Company has finalized and filed its 10-Qs approximately 5-6
5 weeks after the end of a fiscal quarter. So, the Company's 10-Q for the months of
6 October, November, and December is typically filed in the first or second week of
7 February after the Company's quarterly board meeting.

8 **Q. WHEN WILL THE COMPANY BE ABLE TO PRODUCE THE**
9 **ACCOUNTING ENTRIES?**

10 A. The accounting entries to establish the deferred liabilities related to TCJA can be
11 filed with the Commission no later than February 28, 2018.

12 **V. CONCLUSION**

13 **Q. PLEASE SUMMARIZE THE MAJOR POINTS IN YOUR TESTIMONY.**

14 A. First, the Company recognizes that the reduction to the federal corporate tax rate
15 effective January 1, 2018 will require an adjustment to the Company's rates.
16 Second, the Company has not yet had adequate time to perform all of the tasks
17 traditionally associated with the end of a fiscal quarter and reflect all of the changes
18 associated with the reduction to the federal corporate tax rate. Third, that the
19 Company is recording a deferred liability as ordered by the Commission and that it
20 believes that this deferred liability adequately protects customers until such time as
21 the full impacts of the tax change can be accounted for as more fully described in
22 the testimony of Mr. Christian.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

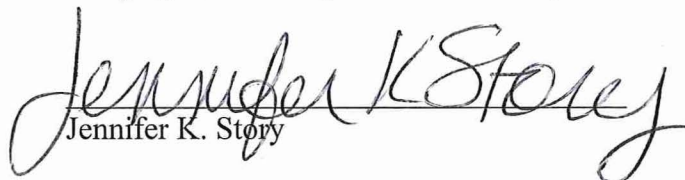
2 A. Yes it does.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

APPLICATION OF ATMOS ENERGY)
)
CORPORATION FOR AN ADJUSTMENT) Case No. 2017-00481
)
OF RATES AND TARIFF MODIFICATIONS)

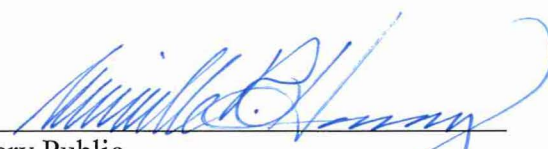
CERTIFICATE AND AFFIDAVIT

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 direct testimony of this affiant in Case No. 2017-00481, 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 direct pre-filed testimony.


Jennifer K. Story

STATE OF TEXAS
COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Jennifer K. Story on this the 24th day of January, 2018.



Notary Public
My Commission Expires: 9/01/2020

