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March 19, 2018

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

Re: WKG Storage, Inc.:  
Case No. 2018-00064

Dear Ms. Pinson:

WKG Storage, Inc., submits the following testimony in this proceeding. 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,



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Attorney for WKG Storage, Inc.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**COMMONWEALTH OF KENTUCKY**

**ELECTRONIC INVESTIGATION OF THE IMPACT )      CASE NO.**  
**OF THE TAX CUTS AND JOBS ACT ON THE      )      2018-00064**  
**RATES OF WKG STORAGE, INC.                      )**

**TESTIMONY OF JOE T. CHRISTIAN**

**I.      INTRODUCTION**

1  
2      **Q.      PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

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

6      A.      I am employed by Atmos Energy Corporation (“Atmos Energy”) as Director of  
7              Rates & Regulatory Affairs (Shared Services) which owns Atmos Energy Holdings,  
8              Inc. which in turn owns Atmos Pipeline and Storage, LLC, which in turn owns  
9              WKG Storage, Inc. (“WKG Storage” or “the Company”).

10     **Q.      WHAT ARE YOUR JOB RESPONSIBILITIES?**

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

1 managed dockets in Georgia, Illinois, Iowa, and Missouri relating to regulated  
2 assets that Atmos Energy 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 2017-00481 and 2017-0349 that are currently  
5 pending before the Kentucky Public Service Commission. I have submitted  
6 testimony before the Kansas Corporation Commission (“KCC”) in five general rate  
7 case proceedings<sup>1</sup> and provided oral comments to the KCC in a rules investigation.<sup>2</sup>  
8 I have also submitted testimony before the Mississippi Public Service Commission  
9 to amend our tariffs to add a supplemental growth rider,<sup>3</sup> to amend our formula rate  
10 tariff to establish a system integrity plan and establish a rural development pilot  
11 program,<sup>4</sup> and to request a system integrity rider and support our capital budget for  
12 2015 through 2024.<sup>5</sup> I have also submitted testimony before the Louisiana Public  
13 Service Commission to amend our formula rate making tariffs to reduce lag related  
14 to system integrity investment.<sup>6</sup> Finally, I filed testimony before the Colorado  
15 Public Utilities Commission numerous times, including the Atmos Energy’s prior  
16 general rate case proceedings;<sup>7</sup> gas prudence reviews;<sup>8</sup> a Phase II class cost of  
17 service/rate design proceeding;<sup>9</sup> a transportation terms & conditions proceeding;<sup>10</sup>

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

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

<sup>3</sup> Docket No. 2013-UN-023.

<sup>4</sup> Docket No. 2014-UN-117.

<sup>5</sup> Docket No. 2015-UN-049.

<sup>6</sup> Docket No. U-32987.

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

<sup>8</sup> Proceeding Nos. 00P-296G and 03P-229G.

<sup>9</sup> Proceeding No. 02S-411G.

<sup>10</sup> Proceeding No. 02S-442G.

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

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 WKG Storage as well as address certain  
12 aspects of the Commission’s order issued in Case No. 2017-00481 on February 19,  
13 2018 (“Feb 19<sup>th</sup> Order”) initiating an investigation of the impact of the Tax Cuts  
14 and Job Act (“TCJA”) on the rates of WKG Storage. Specifically, I will (1) address  
15 the savings resulting from the January 1, 2018 tax reduction and the impact on cost  
16 of service based rates (2) the appropriate level of reductions in utility rates to reflect  
17 the reduced federal corporate tax rate.

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<sup>11</sup> Proceeding No. 04A-275G.

<sup>12</sup> Proceeding No. 08F-033G.

<sup>13</sup> Proceeding No. 10AL-822G.

<sup>14</sup> Proceeding No. 12AL-1003G.

<sup>15</sup> Proceeding No. 12AL-1139G.

<sup>16</sup> Proceeding No. 13A-0153G.

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

3 A. In addition to my testimony, WKG Storage 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) supply copies of accounting entries made to  
9 reflect the deferred liabilities.

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

11 A. Yes. Exhibit JTC-1 TCJA Rates

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 Feb 19<sup>th</sup> Order properly notes in the second paragraph, “...ratepayers  
17 are required to pay through their rates the tax expense of a utility...” WKG  
18 Storage’s rates include, among other costs, federal income taxes; thus, a change in  
19 the statutory federal income tax rate does have an impact on the overall cost of  
20 service of WKG Storage.

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

4 A. Yes. Although the timing of the investigation started with the Feb 19<sup>th</sup> Order does  
5 not coincide with an ongoing rate proceeding for WKG Storage, the rates currently  
6 charged can be reduced to reflect a portion of TCJA benefit to our customer.<sup>17</sup>

7 **Q. HOW WOULD YOU BEGIN FLOWING BENEFITS BACK TO**  
8 **CUSTOMERS BEFORE RATES FROM A FULL RATE CASE GO INTO**  
9 **EFFECT?**

10 A. As described later in my testimony, WKG Storage is recording a deferred liability  
11 to preserve for its customer the benefit of the tax savings beginning January 1, 2018,  
12 through the effective date of rates being implemented that reflect the benefits of  
13 TCJA. WKG Storage can, upon Commission order, put in place new rates that  
14 reflect the TCJA savings.

15 **Q. HOW WOULD THESE NEW RATES BE PLACED INTO EFFECT?**

16 A. WKG Storage could change its tariff to reflect the new rates. In addition to changing  
17 its tariff, WKG Storage and Atmos Energy should file a revised contract reflecting  
18 a lower negotiated contract rate to reflect the new WKG Storage rates. The revised  
19 contract could be filed at the same time the tariff revisions are filed.

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<sup>17</sup> WKG Storage currently has only one customer – Atmos Energy, its affiliate. That customer takes service pursuant to a negotiated contract rate that is derived from WKG Storage's cost-of-service rates. Atmos Energy recovers the costs of WKG Storage's monthly bills through its PGA tariff.

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

2 A. Exhibit JTC-1 compares the rates that result from updating for the single issue of  
3 federal income tax change to the current rates being charged. In order to provide  
4 this comparison of rates I utilized the deficiency model that supports the final  
5 deficiency and rates approved by the Commission in Case No. 2016-00053. The  
6 model was then revised to reflect the single issue of federal income tax change from  
7 35 percent to 21 percent. This calculation results in a decrease in the cost of service  
8 of approximately \$57,000 on an annual basis.

9 **Q. WOULD YOU DESCRIBE EACH OF THESE CALCULATIONS AS**  
10 **‘INTERIM’?**

11 A. Although WKG Storage’s affiliate and ultimate parent, Atmos Energy, proposed to  
12 implement rates on an interim basis, and despite the Feb 19<sup>th</sup> Order indicating that  
13 TCJA impact to “...rates cannot be determined with precision at this time” because  
14 the tariff is billed on a demand basis, the amount for WKG Storage related to the  
15 current portion of the impact of the TCJA can be determined with precision.

16 **Q. IF THE COMMISSION CHOOSES TO DIRECT THE COMPANY TO PUT**  
17 **NEW RATES IN PLACE, WOULD WKG STORAGE PUT THE RATES**  
18 **SHOWN IN EXHIBIT JTC-1 INTO EFFECT?**

19 A. Yes. As noted above, the impact on WKG Storage’s cost of service rates in  
20 Kentucky using the methodology described in my testimony is estimated to be  
21 \$57,000 annually. If ordered by the Commission, the Company would use the rates  
22 reflected in Exhibit JTC-1 to reduce the monthly invoice to Atmos Energy each  
23 month until WKG Storage makes a future Alternative Rate Filing.



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

3 A. WKG Storage cannot change rates without authorization by the Commission.  
4 However, it is the Company’s understanding from reading the Feb 19<sup>th</sup> 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 WKG  
7 Storage to allow for due process considerations. The Company has calculated the  
8 rates with the most substantial portion of TCJA savings and believe the rates  
9 proposed in Exhibit JTC-1 meet the Commission’s intent.

10 **Q. IS WKG STORAGE TAKING ACTION TO ENSURE THAT ITS**  
11 **CUSTOMER WILL RECEIVE THE BENEFIT OF THE CHANGE**  
12 **BETWEEN JANUARY 1, 2018 AND IMPLEMENTATION OF RATES**  
13 **REFLECTNG THE TCJA?**

14 A. Yes. Pursuant to the Feb 19<sup>th</sup> Order, Ordering Paragraph 2, the Company is  
15 preserving the benefit for its customer by, “...recording deferred liabilities on [its]  
16 books for gas...to reflect the reduction in the federal corporate tax rate...”

17 **Q. HOW IS WKG STORAGE RECORDING THIS DEFERRED LIABILITY?**

18 A. The Company is utilizing the model used in preparing Exhibit JTC-1to record the  
19 appropriate deferred liability. The liability will be recorded on WKG Storage’s  
20 books and records from January 1, 2018, through the effective date of the new rates  
21 that reflect TCJA.

1 **Q. HOW DO YOU PROPOSE TO RETURN THE DEFERRED LIABILITY**  
2 **DESCRIBED IN THE PREVIOUS QUESTION?**

3 A. WKG Storage will take the cumulative deferred liability and credit it back to Atmos  
4 Energy in the month following implementation of TCJA rates. This credit could  
5 also be memorialized in the revised contract between WKG Storage and Atmos  
6 Energy.

7 **Q. HOW WOULD WKG STORAGE RETURN EXCESS DEFERRED INCOME**  
8 **TAX LIABILITIES RESULTING FORM TCJA?**

9 A. WKG Storage will return excess deferred income tax liabilities (“EDITL”)  
10 resulting from the TCJA during its next alternative rate filing. Currently WKG  
11 Storage has an EDITL of \$820,929 recorded and preliminary estimates are to  
12 amortize this liability over the estimated 32 year remaining life of the plant.

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

14 A. Yes.


COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

ELECTRONIC INVESTIGATION OF THE IMPACT ) CASE NO.  
OF THE TAX CUTS AND JOBS ACT ON THE ) 2018-00064  
RATES OF WKG STORAGE, INC. )


CERTIFICATE AND AFFIDAVIT

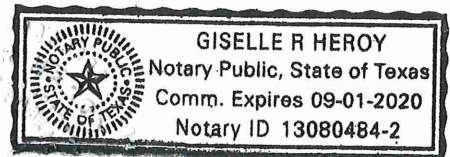
The Affiant, Joe T. Christian, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 2018-00064, in the ELECTRONIC INVESTIGATION OF THE IMPACT OF THE TAX CUUTS AND JOBS ACTO ON THE RATES OF WKG STORAGE, INC. 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 15<sup>th</sup> day of March, 2018.

  
\_\_\_\_\_  
Notary Public  
My Commission Expires: 9/01/2020



**WKG STORAGE, INC.**  
**RATE COMPARISON / PROOF OF REVENUES**  
**TEST YEAR ENDING DECEMBER 31, 2015 - Updated for TCJA**

Line No.	Description (a)	Current Rate (b)	Proposed Rate (c)			
1	<b>Firm Transportation Rates (\$/1000 cubic feet)</b>					
2	Storage Transportation (TS-1) Injection	\$0.1498	\$0.1457			
3	Storage Transportation (TS-1) - Withdrawal	\$0.1498	\$0.1457			
4	Storage Service (S-1) - Reservation	\$0.0749	\$0.0729			
		<u>Capacity</u> (b)	<u>Proposed Rate</u> (c)	<u>Discount</u> (d)	<u>Months</u> (e)	<u>Revenue</u> (f)
5	<b>Proof of Revenue - Proposed Rates:</b>					
6	TS-1 Rate - Injection	1,750,000	\$0.1457			254,975
7	TS-1 Rate - Withdrawal	1,750,000	\$0.1457			254,975
8	Total TS-1					<u>509,950</u>
9	S-1 Storage Reservation	1,750,000	\$0.0729	90%	12	1,377,810
10	Annual Demand Charge					<u>1,887,760</u>
11	Monthly Demand Charge					157,313
12	<b>Proof of Revenue - Existing Rates:</b>					
13	TS-1 Rate - Injection	1,750,000	\$0.1498			262,150
14	TS-1 Rate - Withdrawal	1,750,000	\$0.1498			262,150
15	Total TS-1					<u>524,300</u>
16	S-1 Storage Reservation	1,750,000	\$0.0749	90%	12	1,415,610
17	Annual Demand Charge					<u>1,939,910</u>
18	Monthly Demand Charge					161,659

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

ELECTRONIC INVESTIGATION OF THE IMPACT ) CASE NO.  
OF THE TAX CUTS AND JOBS ACT ON THE ) 2018-00064  
RATES OF WKG STORAGE, INC. )

TESTIMONY OF JENNIFER K. STORY

1 I. INTRODUCTION

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

3 A. My name is Jennifer K. Story. My business address is 5430 LBJ Freeway, Suite  
4 700, Dallas, TX 75240. I am employed by Atmos Energy Corporation ("Atmos  
5 Energy") as Director of Income Tax.

6 Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL  
7 BACKGROUND.

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

11 I worked in both a large corporate tax department and in public accounting prior to  
12 joining Atmos Energy in December 2006. Since joining Atmos Energy, I have  
13 assumed the oversight and management of all income tax matters for Atmos  
14 Energy. I also serve as a representative for Atmos Energy on the American Gas  
15 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 of its income tax matters. This oversight includes ensuring that  
4 the income tax accounts recorded on the books and records accurately reflect Atmos  
5 Energy's tax filings and positions. I am also responsible for ensuring that deferred  
6 taxes are recorded on the financial statements in accordance with Generally  
7 Accepted Accounting Principles ("GAAP"). I oversee a group of tax professionals,  
8 who undertake tax planning to minimize taxes, prepare tax filings, and defend those  
9 filings under audit. I am also responsible for the establishment of and compliance  
10 with the Atmos Energy's income tax policies and controls.

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

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

<b>Regulatory Authority</b>	<b>Proceeding</b>	<b>Testimony Submitted</b>
Kentucky Public Service Commission	Docket No. 2017-00481	Direct
Kentucky Public Service Commission	Docket No. 2017-00349	Rebuttal
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

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16

1 **II. PURPOSE OF TESTIMONY**

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

3 A. My testimony will respond to the Commission’s order in Case No. 2018-00064  
4 (“Feb 19<sup>th</sup> Order”). Specifically, I will (1) discuss the impact of the reduction in  
5 federal corporate tax rate resulting from the TCJA on WKG Storage, Inc.’s (“WKG  
6 Storage” or “the Company”) financial operations; (2) describe the Company’s  
7 recording of a regulatory liability on its books to reflect the excess deferred income  
8 taxes resulting from the reduction in the federal corporate tax rate; (3) supply copies  
9 of accounting entries made to reflect the regulatory liability for excess deferred  
10 income taxes.

11 **III. DISCUSSION OF IMPACT OF THE REDUCTION IN FEDERAL**  
12 **CORPORATE TAX RATE ON THE COMPANY’S FINANCIAL**  
13 **OPERATIONS**

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

17 A. As a result of the reduction in the federal corporate tax rate, the Company was  
18 required to revalue its ADIT using the new statutory rate. The excess deferred taxes  
19 resulting from the reduction in the tax rate resulted both in the establishment of a  
20 regulatory liability and an impact to the Company’s fiscal year ended September  
21 30, 2018 earnings. In addition, the Company will take into account the tax rate  
22 change when calculating current year earnings.

1 **Q. WHAT IS ADIT?**

2 A. Deferred taxes represent the balance of tax that is due or receivable in the future  
3 when items of income and expense are recognized for tax purposes in a period  
4 different than they are recognized for financial reporting purposes. Accumulated  
5 deferred income taxes (“ADIT”) simply represent the accumulated tax for all items  
6 deferred to future periods. For a regulated utility’s ratemaking purposes, deferred  
7 taxes are treated as a source of cost-free financing provided by the government.

8 **Q. HOW ARE DEFERRED TAXES TREATED FOR RATEMAKING**  
9 **PURPOSES?**

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

15 **Q. WHAT ADJUSTMENTS TO ADIT WERE THE COMPANY REQUIRED**  
16 **TO MAKE AS A RESULT OF THE REDUCTION IN FEDERAL**  
17 **CORPORATE TAX RATES?**

18 A. As a result of the reduction in federal corporate tax rate, the Company was required  
19 to revalue the ADIT on its books at the new statutory rate. The reduction in the  
20 federal statutory rate reduces the future tax liabilities for which the Company has  
21 deferred tax liabilities recorded. In other words, the amount recorded on the  
22 Company’s books prior to the tax law change is in excess of what the Company  
23 expects to pay the government in the future. The Company established a regulatory



1 liability for the excess deferred taxes associated with items in rate base. The  
2 Company will be required to refund this regulatory liability back to customers in a  
3 manner that conforms with the Internal Revenue Code and the Commission's  
4 decision in this proceeding.

5 **Q. DOES THE INTERNAL REVENUE CODE SPECIFY HOW THE**  
6 **REGULATORY LIABILITY FOR EXCESS DEFERRED TAXES SHOULD**  
7 **BE AMORTIZED TO CUSTOMERS?**

8 A. Yes. The IRC specifies how the regulatory liability for certain excess deferred taxes  
9 should be amortized to customers. Section 13001 (d) of the TCJA specifically  
10 addresses the return of excess deferred income taxes in a manner similar to the Tax  
11 Reform Act of 1986. The TCJA requires that the amortization of excess deferred  
12 taxes comply with the normalization requirements and prohibits utilities from  
13 reducing the reserve for excess deferred income taxes more rapidly or to a greater  
14 extent than such reserve would be reduced under the Average Rate Assumption  
15 Method ("ARAM"). The TCJA also provides an alternative method for return of  
16 excess deferred income taxes for those regulated utilities whose records do not  
17 contain the necessary data to implement ARAM. The alternative method is known  
18 as the Reverse South Georgia method ("RSG"). At a high level, the IRC-prescribed  
19 amortization methodologies amortize the excess deferred tax liability back over the  
20 life of the underlying property that gave rise to the excess.

1 **Q. WHAT DATA IS NECESSARY TO CALCULATE AMORTIZATION**  
2 **USING THE ARAM?**

3 A. In order to amortize using the ARAM, the Company must have detailed property  
4 records at a vintage (tax year) level as used in the Company's regulated books of  
5 account. The property records must contain this vintage year data for both book  
6 and tax records. In other words, the book cost and book accumulated depreciation  
7 must be available by vintage account.

8 **Q. DOES THE COMPANY MAINTAIN VINTAGE YEAR DATA FOR BOOK**  
9 **AND TAX RECORDS?**

10 A. The Company does maintain vintage year data for book and tax property cost. The  
11 Company does not, however, maintain vintage year data for book accumulated  
12 depreciation records.

13 **Q. WHY NOT?**

14 A. The Company maintains its accounting records in accordance with FERC  
15 requirements and Generally Accepted Accounting Principles. Book depreciation is  
16 computed using the depreciation lives approved by this Commission. In order to  
17 use the ARAM, the Company must calculate and track accumulated depreciation  
18 for assets by vintage. Since the FERC requirements and the methodology required  
19 in Kentucky do not require recording and tracking this type of detailed data, the  
20 Company has determined that it does not possess the detailed records necessary to  
21 use the ARAM.

1 **Q. WHAT METHODOLOGY WILL THE COMPANY USE TO AMORTIZE**  
2 **EXCESS DEFERRED TAX LIABILITIES?**

3 A. The Company will amortize excess deferred taxes utilizing the RSG method. In  
4 light of the Company's records and level of detail required by the FERC and the  
5 Kentucky Public Service Commission, the RSG method must be used.

6 **Q. PLEASE DESCRIBE THE RSG METHOD OF AMORTIZING EXCESS**  
7 **DEFERRED TAX LIABILITIES.**

8 A. RSG amortizes the excess deferred tax liability back over the life of the underlying  
9 property that gave rise to the excess. Under this method a taxpayer computes the  
10 excess tax reserve on all public utility property included in the plant account and  
11 amortizes such reserve on the basis of the weighted average life or the composite  
12 rate used to compute depreciation for regulatory purposes. This method reduces the  
13 excess tax reserve ratably over the remaining regulatory life of the property.

14 **Q. DO THE NORMALIZATION REQUIREMENTS SPECIFY WHICH**  
15 **EXCESS DEFERRED INCOME TAXES MUST BE AMORTIZED USING**  
16 **RSG?**

17 A. Yes. All utility property related excess deferred income taxes must be amortized  
18 using RSG. Property related excess deferred tax liabilities are those excess deferred  
19 taxes created by differences in book and tax methods for fixed asset cost basis  
20 adjustments and depreciation deductions.

1 **Q. WHAT IS THE PENALTY FOR NOT COMPLYING WITH THE IRC**  
2 **RULES FOR AMORTIZING PROTECTED EXCESS DEFERRED TAX**  
3 **LIABILITIES?**

4 A. The Internal Revenue Service will assert a normalization violation for any taxpayer  
5 who reduces the excess tax reserve more quickly than the reserve would be reduced  
6 under the allowable methods. A normalization violation results in the taxpayer's  
7 tax for the taxable year being increased by the amount by which it reduced the  
8 excess tax reserve more quickly than permitted. In addition, the taxpayer would  
9 lose the ability to deduct accelerated tax depreciation in the future and instead  
10 would only be allowed to deduct for tax purposes the amount of depreciation  
11 expensed for regulatory reporting purposes. This would remove the ADIT offset to  
12 rate base, which would effectively increase rate base, thus resulting in a higher  
13 overall cost of service with a corresponding increase in customer bills.

14 **Q. WILL AMORTIZATION USING THE RSG METHOD COMPLY WITH**  
15 **THE NORMALIZATION PROVISIONS OF THE IRC?**

16 A. Yes. The TCJA provides that a company that lacks the vintage level records and  
17 uses RSG to amortize public utility property will satisfy the normalization  
18 requirements.

19 **Q. DOES WKG STORAGE HAVE ANY EXCESS DEFERRED INCOME**  
20 **TAXES THAT ARE NOT RELATED TO UTILITY PROPERTY?**

21 A. No.

1 **Q. WHAT WOULD HAPPEN IF THE COMPANY AMORTIZED ALL**  
2 **EXCESS DEFERRED TAXES BACK TO CUSTOMERS OVER 20 YEARS**  
3 **AS THE FEBRUARY 19<sup>TH</sup> ORDER CONTEMPLATES?**

4 A. The use of an amortization period unsupported by ARAM or RSG calculations  
5 would not comply with the TCJA and the normalization provisions. As explained  
6 above, the Company's property related excess deferred tax liabilities must be  
7 amortized using RSG. If the Company were to instead amortize over 20 years as  
8 the Commission's February 19<sup>th</sup> Order issued in Case No. 2018-00064 suggests, a  
9 normalization violation could be asserted by the IRS and the severe tax  
10 consequences I have described could occur. These consequences would be  
11 detrimental to both the Company and its Kentucky customers.

12 **Q. WHAT IS THE PENALTY FOR NOT COMPLYING WITH THE IRC**  
13 **RULES FOR AMORTIZING PROTECTED EXCESS DEFERRED TAX**  
14 **LIABILITIES?**

15 A. The Internal Revenue Service will assert a normalization violation for any taxpayer  
16 who reduces the excess tax reserve more quickly than the reserve would be reduced  
17 under the allowable methods. A normalization violation results in the taxpayer's  
18 tax for the taxable year being increased by the amount by which it reduced the  
19 excess tax reserve more quickly than permitted. In addition, the taxpayer would  
20 lose the ability to deduct accelerated tax depreciation in the future and instead  
21 would only be allowed to deduct for tax purposes the amount of depreciation  
22 expensed for regulatory reporting purposes. This would remove the ADIT offset to

1 rate base, which would effectively increase rate base, thus resulting in a higher  
2 overall cost of service with a corresponding increase in customer bills.

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

5 A. The Company does not file taxes on a calendar year basis, but rather on a fiscal year  
6 ending September 30<sup>th</sup>. Section 15 of the Internal Revenue Code requires that the  
7 Company use a blended tax rate in the year of enactment if the enactment date does  
8 not fall on the first day of the Company's fiscal year. This is the case for WKG  
9 Storage and so taxes calculated for the Company's fiscal year ending September  
10 30, 2018 will be calculated using a blended tax rate. Accordingly, the Company's  
11 tax rate for its current fiscal year is now neither 35% nor 21%, but is technically a  
12 weighted average of those two rates proportional to the length of time each rate  
13 was/is in effect. The Company's effective tax rate for its current fiscal year is  
14 24.5%. This rate must be taken into account for current year earnings and for the  
15 portion of ADIT expected to reverse during the current fiscal year.

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

17 A. The Company will pay tax on all income earned during the current fiscal year at  
18 24.5%. The statutory rate of 21% will not be fully effective for the Company until  
19 the next fiscal year which begins October 1, 2018. The blended rate of 24.5% must  
20 be used to revalue ADIT items which the Company expects to reverse during its  
21 fiscal year ended September 30, 2018. This rate must also be applied to current year  
22 earnings in calculating tax expense.

1 **Q. WHAT IS THE AMOUNT OF THE ESTIMATED DEFERRED INCOME**  
2 **TAX LIABILITY FOR WKG STORAGE?**

3 A. The estimated excess deferred liability is \$820,929. The regulatory liability the  
4 Company established for WKG Storage excess deferred income taxes includes  
5 some estimated amounts that will be refined as the Company completes its  
6 accounting for its September 30<sup>th</sup> fiscal year end. In addition, WKG Storage has  
7 estimated that the period for amortizing the regulatory liability for excess deferred  
8 income taxes is 32 years.

9 **Q. WHY HAS THE COMPANY ESTIMATED THE AMOUNT OF THE**  
10 **REGULATORY LIABILITY FOR EXCESS DEFERRED INCOME**  
11 **TAXES?**

12 A. The Company's fiscal year end is September 30<sup>th</sup>. The TCJA was signed into law  
13 on December 22, 2017, during the Company's first quarter of fiscal year ending  
14 September 30, 2018. Cumulative timing differences which generate ADIT are  
15 calculated based on the Company's fiscal year end. Until the Company has  
16 completed its year end and the book accounting for items giving rise to cumulative  
17 temporary differences are completed, estimates of the current year deferred taxes  
18 and resulting amounts to be recorded to the regulatory liability have been used.

19 **Q. WHEN WILL THE COMPANY FINALIZE THE AMOUNT OF THE WKG**  
20 **STORAGE REGULATORY LIABILITY FOR EXCESS DEFERRED**  
21 **INCOME TAXES?**

22 A. First, the Company will refine its estimate of the cumulative differences generating  
23 the excess deferred taxes as part of the annual tax provision calculation performed

1 in October 2018. The Company will have exact amounts after the filing of its  
2 parent's consolidated federal income tax return.

3 **Q. WHY HAS THE COMPANY ESTIMATED THE AMORTIZATION**  
4 **PERIOD OF THE REGULATORY LIABILITY FOR EXCESS DEFERRED**  
5 **INCOME TAXES?**

6 A. The Company must first finalize the computation of the regulatory liability for  
7 excess deferred income taxes prior to finalizing the amortization for this amount.  
8 Then Atmos Energy's tax systems must be modified in order to permit it to  
9 calculate its affiliate's amortization using RSG. Atmos Energy is currently working  
10 with consultants to determine the time required to make these necessary  
11 modifications. Until such modifications are complete and Atmos Energy is able to  
12 perform a full and detailed computation of amortization, a high-level estimate has  
13 been prepared for use in this filing.

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

15 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 )

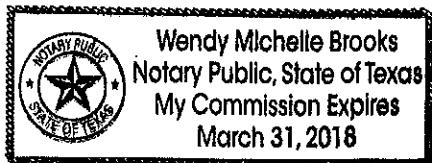
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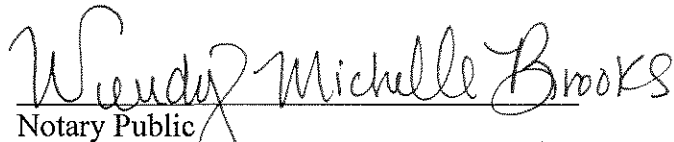
The Affiant, Jennifer K. Story, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 2017-00481, in the Matter of the Rate Application of Atmos Energy Corporation, and that if asked 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 19 day  
of January, 2018.



  
Notary Public  
My Commission Expires: March 31, 2018