COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ATMOS	)	
ENERGY CORPORATION FOR AN	)	Case No.
ADJUSTMENT OF RATES	)	2018-00281

ATTORNEY GENERAL'S RESPONSES TO DATA REQUESTS OF ATMOS ENERGY CORPORATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits the following responses to data requests of Atmos Energy Corporation in the above-styled matter.

Respectfully submitted,

ANDY BESHEAR
ATTORNEY GENERAL

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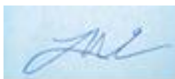
__Certificate of Service and Filing__

Counsel certifies that the foregoing is a true and accurate copy of the same document being filed in paper medium with the Commission within two business days; that the electronic filing has been transmitted to the Commission on February 27, 2019; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 27th day of February, 2019.



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Assistant Attorney General

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WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 1
Page 1 of 1

Refer to the Kollen Testimony at Page 12, Lines 5-7. Please provide citations to any proceedings other than Case No. 2017-00321 (Duke Electric) Mr. Kollen is aware of where utilities in Kentucky were ordered to adopt Average Life Group (ALG).

RESPONSE:

Mr. Kollen has not performed a study to determine the history of how utilities in Kentucky have come to utilize their current depreciation procedure, whether it be ALG or ELG. However, Mr. Kollen believes that each Kentucky utility other than Atmos currently utilizes the ALG procedure to determine depreciation rates.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 2
Page 1 of 1

Please refer to the Kollen Testimony at Page 13, Lines 17-18. Admit or deny that the Commission has previously approved the Equal Life Group (ELG) procedure for the Company's depreciation rates.

RESPONSE:

Mr. Kollen is not aware that the Commission ever explicitly and expressly approved the ELG procedure in lieu of the ALG procedure in any Atmos base rate proceeding. To the best of Mr. Kollen's knowledge, the Commission in Case No. 1999-0070 approved a settlement which included depreciation rates that were developed using the ELG procedure in in conjunction with a settlement. See Company's response to AG 2-22 in Case No. 2017-00349.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 3
Page 1 of 1

Is Mr. Kollen aware of any utilities in Kentucky besides Atmos Energy that use ELG for calculating their depreciation rates?

RESPONSE:

No.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 4
Page 1 of 1

Does Mr. Kollen believe that the ALG is the only acceptable depreciation methodology that a regulatory agency should ever approve for a regulated natural gas utility?

a. If, yes, explain why ELG has been approved by state regulatory authorities for natural gas utilities and any factors that distinguish those companies from Atmos Energy

RESPONSE:
Yes. Mr. Kollen does not know why any state regulatory authorities would approve the ELG procedure for natural gas or any other utilities.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 5
Page 1 of 1

Are there any circumstances that would warrant the adoption of ELG for a regulated natural gas utility?

a. What are those circumstances?
b. Why do none of those circumstances apply to Atmos Energy in this case?

RESPONSE:

No. The natural gas utility will recover the entirety of its plant costs through depreciation expense under either the ELG procedure or the ALG procedure. The issue is one of timing. The ELG procedure provides accelerated recovery compared to the ALG procedure. The ELG procedure effectively compounds the effects on customers from new plant additions. The ELG depreciation rates and expense are at their peak and the return on rate base is at its peak when construction work in progress is closed to plant. In contrast, the ALG depreciation rates and expense are levelized over the service lives of all vintages of plant, which tends to mitigate the effects of new plant additions and ensures that all generations of customers provide a proportionate recovery, as opposed to a declining recovery, of the plant costs through depreciation expense over the entire service lives of all assets.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 6
Page 1 of 1

Refer to the Kollen Testimony at Page 22, Lines 7-9. Does Mr. Kollen believe that a utility's required capital expenditures relating to system replacement are related to customer growth or usage growth? Please explain why or why not.

RESPONSE:

Some of a utility's capital expenditures may be related to customer growth, e.g., to extend service to a new customer or group of customers; however, very little is related to usage growth unless it is extremely significant, such as a new industrial customer.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 7
Page 1 of 1

Refer to the Kollen Testimony at Page 23, Lines 12-18. Is Mr. Kollen aware of any investor-owned utilities that do not "control" their capital expenditures? If so, please identify them.

RESPONSE:

No. However, the Commission must assess the reasonableness of forecast capital expenditures given no or minimal customer growth, prior Orders limiting recovery of pipeline replacement expenditures, and the magnitude of the capital expenditures compared to history and the effect on customer rates. In every base rate proceeding, the Commission has the opportunity to retain or implement various behavioral incentives for the utility to control its capital expenditures and to avoid or reject behavioral incentives to increase capital expenditures. The Commission must balance the utility's inherent incentives to grow rate base against the effect on customers who necessarily must pay for this increases in rate base through increases in their rates.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 8
Page 1 of 1

Refer to the Kollen Testimony at Page 25, Lines 10-18. What percent of the Company's system does Mr. Kollen believe that the current customers would be paying to replace over the next four to six years?

RESPONSE:

With little or no customer growth, the Company's rate base will double in the next six years based on the magnitude of its forecast capital expenditures. See Kollen Direct at 21.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 9
Page 1 of 1

Refer to the Kollen Testimony at Page 25, Lines 10-18. What percentage of the Company's system does Mr. Kollen believe current customers should prudently pay to replace over the next four to six years?

RESPONSE:

Mr. Kollen recommends that the Commission retain the PRP rider and allow the Company to recover the $28 million for replacement pipeline costs annually pursuant to its Order in Case No. 2017-00349. Mr. Kollen also recommends that the Commission limit the recovery of forecast non-PRP to a recent historical average. Even with these limitations, the Company will double its rate base within the next ten years, all else equal.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 10
Page 1 of 1

If the Company were to adopt capital expenditures in line with Mr. Kollen's testimony, would he think it prudent for the Company to routinely have pipelines in service that were over 100 years old?

RESPONSE:

Mr. Kollen believes that the Company has an obligation to operate its system safely and reliably. The physical condition of a pipeline is more relevant than the age. The Company prioritizes its capital investment and directs expenditures where necessary for safety, reliability, growth, and relocations, among other factors. If there are pipeline segments in service that are over 100 years old, then these segments, along with all others, are subject to the Company's integrity management program and continuously monitored and evaluated based on condition assessments, maintenance requirements, and leak incidents.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 11
Page 1 of 1

Refer to the Kollen Testimony at Page 26, Line 1-3 and Exhibit LK-16. The testimony recommends that non-PRP capital expenditures included in the test year be limited to the Company's most recent three-year actual non-PRP expenditures. Please indicate which proposed projects in Exhibit LK-16 are unreasonable and/or imprudently proposed by the Company at this time.

a. Has Mr. Kollen made any study or is he aware of any information that indicates Atmos Energy's proposed non-PRP capital expenditures are not justified?

RESPONSE:

Mr. Kollen has not made that assessment, but does not believe that is the appropriate standard. Rather, it is a matter of prioritization and timing, at least to the extent that the Company has identified specific projects in the test year. No utility or entity has unlimited resources to replace its system assets. However, a utility can use a forecast test year to increase its resources by increasing its capital investment to include lower priority projects.

a. Yes. Mr. Kollen performed a comparison of the Company's forecast capital expenditures to prior years, including its forecast capital expenditures from the last base rate proceeding.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 12
Page 1 of 1

Refer to the Kollen Testimony at Page 26, lines 1-6. Mr. Kollen has recommended that the Company's test year capital spending should be capped at the historic three-year average.

a. Admit or deny that the proposal to cap spending at a historic three-year average, if adopted, would eventually result in a flat level of capital spending.
b. What study or analysis has Mr. Kollen performed that supports his conclusion that this capped amount is sufficient to adequately replace aged segments of Atmos Energy's system?
c. If Mr. Kollen has performed such a study or analysis, provide the results, including which projects and at what cost, should be performed in the test year.
d. If he has not performed such study or analysis, has he consulted with any pipeline safety or system integrity expert related to the particular projects included in the Company's test year capital budget for non-PRP expenditures? If he has, please identify the expert or experts consulted.

RESPONSE:

a. Not necessarily. Mr. Kollen proposes a cap on the forecast expenditures included in the test year. Over time, and after the bare steel mains and older plastic mains are replaced, the system should be stabilized and require a lower level of capital expenditures.
b. Atmos has not identified specific capital expenditures that sum to the forecast capital expenditures in the test year. It simply made assumptions regarding the level of capital expenditures, which it then allocated to plant account (not specifically identified projects). Atmos has the burden to justify its forecast rate base. It has not done so. Mr. Kollen cannot review individual projects that the Company itself has not reflected in its forecast.
c. See response to part (b) of this question.
d. See response to part (b) of this question.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 13
Page 1 of 1

Refer to the Kollen Testimony at Page 26, Line 1-6 and Exhibit LK-16. Provide a list of projects Mr. Kollen believes are unnecessary or which can be deferred to conform to the timing of the depreciation schedule he proposes.

RESPONSE:
Refer to the response to Question No. 12. Mr. Kollen did not recommend a limit on capital expenditures based on "the timing of the depreciation schedule he proposes."

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen / Counsel as to Objection

QUESTION No. 14
Page 1 of 1

If the Company proposes capital expenditures that are prudent in terms of growth, safety, or integrity concerns, should such expenditures be denied without specific reasons?

RESPONSE:

Objection to the form of the question. Without waiving this objection, Mr. Kollen states that the question is based on a false premise, or at least a premise that is unsupported in fact, with respect to non-PRP capital expenditures. The Company has offered nothing more than these general reasons in support of the forecast capital expenditures, not specific reasons. There is almost no customer growth. The Company has been able to meet all safety and integrity concerns based on its historic capital expenditures. As pipeline is replaced, the required expenditures should decline, all else equal. Yet, the Company continues to ratchet up the forecast expenditures in each successive base rate case filing.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 15
Page 1 of 1

Please refer to the Kollen Testimony at Section III, Parts A & B. What value did Mr. Kollen attribute to the safety and reliability enhancements that the proposed capital expenditures would provide? Please quantify your response.

RESPONSE:
Refer to the response to Question No. 14.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen / Counsel as to Objection

QUESTION No. 16
Page 1 of 1

Given the testimony of Mr. Watson, are all of the experts he cites wrong about the appropriateness of ALG for regulated gas utilities? Explain why they are collectively wrong, or how the Company can be distinguished from the analysis cited by Mr. Watson.

RESPONSE:
Objection to the form of the question. Without waiving this objection, Mr. Kollen states that the question appears to be misstated. Mr. Watson cites several experts to argue for ELG, not ALG. There are other experts who argue for ALG, not ELG. The predominant procedure used in the regulated utility industry is ALG, not ELG. In addition, the ALG procedure is more closely aligned with the depreciation procedures used by entities other than regulated utilities in accordance with GAAP. Support for the ELG procedure is based on the false premise that more granularity based on more detailed assumptions results in a more precise or accurate outcome. That is incorrect. The ALG and ELG procedures are statistical procedures that stratify the data differently in order to develop the depreciation rates, and thus, the timing of depreciation expense. Neither procedure is more or less precise or accurate. They simply are different. They do not result in more or less depreciation expense over the aggregate service lives of the assets. The ELG procedure accelerates the depreciation expense to the early years whereas the ALG procedure levelizes or normalizes the depreciation expense over all service years.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen / Counsel as to Objection

QUESTION No. 17
Page 1 of 1

The proposed depreciation rates facilitate the replacement of aged facilities. What analysis has Mr. Kollen made to assess the impact of lower depreciation rates he proposes on the safety and integrity of the gas distribution system?

RESPONSE:
Objection to the form of the question. Without waiving this question, Mr. Kollen states that the premise stated in the question is incorrect. Depreciation rates do not facilitate replacement of aged facilities. Depreciation rates provide for recovery of plant investment. Excessive depreciation rates provide accelerated recovery of plant investment, which translates to higher rates for customers. This simply provides greater cash flow earlier to the utility. Even this does not facilitate the replacement of aged facilities unless the utility is unable to finance on reasonable terms and at reasonable costs, which is not the case with Atmos.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen / Counsel as to Objection

QUESTION No. 18
Page 1 of 1

Is Mr. Kollen aware of any study or other information that supports the effect of his depreciation proposal, which is lower rates, but a slower replacement of potentially dangerous facilities and increased risk to public safety?

RESPONSE:

Objection to the form of the question. Without waiving this objection, Mr. Kollen states that, once again, the premise and the claimed relationships stated in the question are incorrect. There is no slower replacement of facilities if there are lower depreciation rates, let alone potentially dangerous facilities. If that were true, then the argument would support recovery of capital investment as incurred, i.e., as an expense.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen / Counsel as to Objection

QUESTION No. 19
Page 1 of 1

Is it Mr. Kollen's position that lower rates are more beneficial to customers than system integrity and public safety?

RESPONSE:
Objection to the form of the question, which poses a false choice between lower rates and system safety. Without waiving this objection, Mr. Kollen states that this is fundamentally a false choice. All three are important and beneficial to customers.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 20
Page 1 of 1

In Mr. Kollen's opinion, what factors determine the balance between lower consumer rates and public safety? How do those factors apply to Atmos Energy in this case?

RESPONSE:
The utility is entitled to recover its reasonable and prudent costs to provide safe and reliable service at the least practicable cost in exchange for its monopoly to provide service in a given territory. The revenue requirement, or consumer rates, is largely the result of the actual and embedded cost structure, subject to projected changes reflected in a forecast test year and other ratemaking adjustments. Every adjustment Mr. Kollen proposed in this proceeding addresses either the ratemaking recovery of costs incurred in prior periods, e.g., depreciation expense, or costs the Company forecasts it will incur after the actual six months in the base period through the end of the test year.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen / Counsel as to Objection

QUESTION No. 21
Page 1 of 1

Does Mr. Kollen believe a state regulatory agency should favor lower customer rates over safety?

RESPONSE:
Objection to the form of the question, which poses a false choice between lower rates and system safety. Furthermore, the question is redundant, repetitive, and is designed to obstruct and delay these proceedings. Without waiving this objection, Mr. Kollen states, see the response to Question 19. Again, this is fundamentally a false choice. Customer rates should reflect the recovery of reasonable and prudent costs incurred to provide safe and reliable service at the lowest practicable level.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen / Counsel as to Objections

QUESTION No. 22
Page 1 of 1

What criteria other than that cited by Atmos Energy does Mr. Kollen believe Atmos Energy should use to assess the need for its non-PRP capital expenditures?

a. If Mr. Kollen does not dispute Atmos Energy's pipeline replacement safety criteria, explain how Atmos Energy can meet the goals of the program without the depreciation rates proposed by Mr. Watson?
b. Does Mr. Kollen believe that he has better information and more familiarity with the Company's system replacement needs than Atmos Energy?

RESPONSE:
See responses to Questions 17 and 18.

a. Objection to the form of the question, which poses a false choice between lower rates and system safety. Without waiving this objection, Mr. Kollen states that as indicated previously, the depreciation rates Mr. Watson proposed do not determine the magnitude of the Company's non-PRP or PRP capital expenditures or the priority or timing of the projects selected; they determine the timing of the recovery of the plant costs that are incurred until new depreciation rates are adopted in future rate proceedings.
b. Same objection. Without waiving this objection, Mr. Kollen states that the premise of the question contains an assumption that the Company's forecast capital expenditures are necessary to meet its "system replacement needs." That assumption is not correct. With respect to the PRP capital expenditures, the Commission determined the timing and magnitude of recovery in its Order in Case No. 2017-00349. With respect to the non-PRP capital expenditures, the Commission must decide whether the forecast capital expenditures are reasonable. Atmos has the burden of proof. It has not justified the *extreme* increases in non-PRP capital expenditures that it proposes. In fact, to the contrary, and as Mr. Kollen discusses in his Direct Testimony, the Company has engaged in gamesmanship by claiming that it reduced PRP capital expenditures to "comply" with the Commission's Order in Case No. 2017-00349, but then increasing its non-PRP forecast capital expenditures so that the total remains the same. This is hardly good faith and it is something that should not be afforded any presumption of reasonableness.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen

QUESTION No. 23
Page 1 of 1

Refer to the Kollen Testimony at Page 23, Lines 12-18. Mr. Kollen testifies that "…the magnitude, timing and prioritization of capital expenditures is discretionary, except for some mandatory projects."

a. Please define what qualifies something as a "mandatory project."
b. Do the replacement of pipe or facilities that are determined to pose a higher risk to public safety under the Company's Distribution Integrity Management plan qualify as "mandatory projects?"
c. Please define what qualifies something as a "discretionary project."
d. Please define what projects that have been identified in this case that qualify as "mandatory projects."

RESPONSE:

a. Mandatory projects are those necessary for safety or reliability due to physical condition that poses an undue level of risk and relocations due to governmental requirements, such as roadwork.
b. Yes, to the extent that the physical condition poses an undue level of risk.
c. Anything that is not mandatory.
d. The terms mandatory and discretionary are relative terms and subject to judgment. Mr. Kollen recommends that the Commission include forecast capital expenditures/plant additions for mandatory and discretionary projects based on the Company's capital expenditures in the prior three years based on the same criteria that the Company used in those years.

WITNESS/RESPONDENT RESPONSIBLE:
Lane Kollen / Counsel as to Objection

QUESTION No. 24
Page 1 of 1

Please refer to the Kollen Testimony at Pages 41 & 42. When referencing a long term debt issuance made by the Company in October 2018, Mr. Kollen indicates that he finds the Company's failure to include the effects of known financing in a forecast capital structure to be "highly unusual and questionable." Please also refer to the Direct Testimony of Mr. Christian, Page 8, Lines 11-18.

a. Confirm that Mr. Christian states, "I would note that two more quarters of actual information will be available (September and December 2018) when rebuttal is filed in this case and therefore could be utilized in establishing a cost of capital in this case. This would pick up incremental long-term debt financing along with additional equity issuances and changes in average short-term debt balances/rates and thus be more reflective of the costs that will be incurred when new base rates go in effect."
b. Confirm or deny that the Company updated its capital structure and weighted average costs of capital in its rebuttal testimony in Case No. 2017-00349 to reflect post-test period financing activities.
c. Confirm or deny that if the Company were to update its capital structure and cost of capital in its rebuttal testimony through December 2018 in this proceeding the record would contain the information required for the finder of fact to make a determination of the appropriate cost of capital for Atmos Energy in this proceeding?

RESPONSE:

a. The distinction in this case is that the Company knew about this financing and chose to not include it in the cost of capital when it filed its case. This is not about an "update" to reflect an actual debt cost in lieu of a forecast debt cost. Nevertheless, the important point is that the debt should be included and presumably will be included in any actual update.
b. This is not correct. There were no "post-test period financing activities" reflected in Case No. 2017-00349.
c. Objection. The question assumes facts not in evidence, and therefore requires Mr. Kollen to speculate. Without waiving this objection, Mr. Kollen states, that is not correct. This is only one piece of information in the determination of the appropriate cost of capital.

AFFIDAVIT

STATE OF GEORGIA)

COUNTY OF FULTON)

LANE KOLLEN, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Lane Kollen

Sworn to and subscribed before me on this
27th day of February 2019.

Notary Public

JESSICA K INMAN
MY COMMISSION EXPIRES
NOTARY
PUBLIC
JULY 31, 2019
CHEROKEE COUNTY, GEORGIA