COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ATMOS ENERGY CORPORATION FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2021-00214

ATTORNEY GENERAL'S RESPONSES TO DATA REQUESTS OF THE KENTUCKY PUBLIC SERVICE COMMISSION STAFF

The intervenor, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention ("AG"), submits the following responses to data requests of the Kentucky Public Service Commission Staff in the above-styled matter.

Respectfully submitted,

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Certificate of Service and Filing

Pursuant to the Commission's Orders in Case No. 2020-00085, and in accord with all other applicable law, Counsel certifies that an electronic copy of the forgoing was served and filed by e-mail to the parties of record. Counsel further certifies that the responses set forth herein are true and accurate to the best of their knowledge, information, and belief formed after a reasonable inquiry.

This 6th day of January, 2022

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Assistant Attorney General

WITNESS / RESPONDENT RESPONSIBLE:
LANE KOLLEN

QUESTION No. 1
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Refer to the spreadsheet filed by Atmos Energy Corporation (Atmos) on December 3, 2021, 2021_KY_Rev_Req_Model_-_Rebuttal_-_Revised.xlsx, Tab J-1. Provide whether the Attorney General agrees with the inclusion of interest rate swaps and if it is acceptable for ratemaking purposes for Atmos.

RESPONSE:

The AG does not agree with the adjustment to remove the unrealized gains/(losses) on the Treasury Lock interest rate derivatives from common equity. The Company and the AG both propose that the Commission adopt a hypothetical capital structure for the test year. Atmos relies on its actual capital structure at September 30, 2021 for its hypothetical capital structure. AG witnesses Mr. Baudino and Mr. Kollen believe that the Company's actual capital structure at September 30, 2021 and its use as a hypothetical capital structure for the test year are unreasonable due to an extremely excessive common equity ratio and extremely low long-term debt and short-term debt ratios.

The unrealized gains/(losses) on interest rate swaps are deferred in the accumulated other comprehensive income ("AOCI") component of common equity. These deferred gains/(losses) are the temporary differences that give rise to the Treasury Lock Adjustment - Unrealized ADIT. In prior cases, the Company retained the unrealized gains/(losses) in the AOCI component of common equity and added the asset ADIT to rate base. In this case, the Company initially retained the unrealized gains/(losses) in the AOCI component of common equity, but decided not to subtract the liability ADIT from rate base. Not only was this a change from the Company's prior cases, but it appears to have been results oriented. In the prior cases the ADIT was an asset and added to rate base. In this case, the ADIT is a liability and would have been subtracted from rate base. After Mr. Kollen identified and described the Company's change in position in his direct testimony, the Company maintained its opposition to subtracting the liability ADIT from rate base and instead proposed an adjustment to remove the temporary difference for the unrealized gains/(losses) from common equity.

Mr. Kollen believes that the Company's position in prior cases is the correct one, meaning that the temporary difference for the unrealized gains/(losses) should be retained in the common equity and that the related ADIT should be added to rate base if an asset or subtracted from rate base if a liability.

WITNESS / RESPONDENT RESPONSIBLE:
LANE KOLLEN

QUESTION No. 2
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Explain what impact the use of a hypothetical capital structure for ratemaking purposes for Atmos will have on Atmos's capital structure.

RESPONSE:

As Mr. Kollen noted in the response to the preceding question, both Atmos and the AG have recommended the use of a hypothetical capital structure. There is no actual capital structure for the test year. The question the Commission must address is "What is the reasonable hypothetical capital structure for ratemaking purposes?" AG witnesses Mr. Baudino and Mr. Kollen offered substantial evidence in their direct testimonies that the Company's proposed hypothetical common equity ratio was excessive and that its long-term debt and short-term debt ratios were too low. The most compelling evidence in support of the AG witnesses is the actual capital structures of the other natural gas utilities in the comparable group used by both Mr. Baudino and Mr. D'Ascendis that reflect substantially lower common equity ratios and higher debt ratios for other utilities with the same risk and credit profiles.

The Commission is the arbiter of what constitutes a reasonable capital structure for ratemaking purposes, as is true for all other ratemaking components, including the rate base components and operating expenses. The utility clearly has an incentive to utilize an unreasonably excessive common equity ratio because that is the only source of its earnings. Recovery of interest expense does not provide a source of earnings. However, the earnings are the direct result of the rates charged to the utility's customers. That is why the Commission, as the arbiter of the reasonable capital structure for ratemaking purposes, must balance the utility's need to attract capital on reasonable terms against the ratepayers' need to be protected from excessive rates in order to provide excessive earnings. The objective evidence of the ability of the utility to attract capital on reasonable terms is to compare the utility to the comparable group that its own witness used to determine the required return on equity.

WITNESS / RESPONDENT RESPONSIBLE:
LANE KOLLEN

QUESTION No. 3
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Explain what impact the use of a hypothetical capital structure for ratemaking purposes for a will have on the evaluation of credit agencies for Atmos.

RESPONSE:

Both the Company and the AG propose a hypothetical capital structure. Certain of the Company's credit metrics will be higher, primarily the cash flow credit metrics, if the Company is allowed a greater common equity ratio and/or a higher return on equity. However, as noted in the response to the preceding question, the Commission is the arbiter of what is reasonable for ratemaking purposes. The Company is not entitled to greater earnings or greater cash flow simply because it provides credit metrics that are higher. The Company is entitled only to reasonable earnings based on a reasonable capital structure and a reasonable return on equity. AG witnesses Mr. Baudino and Mr. Kollen propose a phased approach to more closely align the Company's capital structure with those of the utilities in the comparable group, consistent with the risk and credit profile of the comparable group.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 4
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Refer to Mr. Baudino's response to Commission Staff's First Request for Information, Item 17. Provide an update to Table 3 and include with this update the proxy group equity ratios for years 2022 and 2024-2026.

RESPONSE:

The following is an updated and expanded Table 3, with data from the November 26, 2021 proxy group reports from the Value Line Investment Survey.

Table 3
Commission Staff Second Request, Question No. 4
Proxy Group Equity Ratios

	2020	2021	2022	2024 - 2026
Atmos Energy Corp.	60.0%	61.5%	60.0%	60.0%
New Jersey Resources	44.9%	46.0%	45.5%	46.5%
Northwest Natural Holding Co.	50.8%	51.0%	53.5%	57.0%
ONE Gas, Inc.	58.5%	38.5%	40.0%	53.0%
South Jersey Industries, Inc.	37.4%	36.0%	36.0%	37.5%
Southwest Gas Holdings, Inc.	49.5%	45.5%	47.0%	54.5%
Spire Inc.	51.0%	48.0%	49.0%	55.0%
Average	50.3%	46.6%	47.3%	51.9%

Source: Value Line Investment Survey, November 26, 2021