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. 2018-00281

ORDER

Atmos Energy Corporation (Atmos) is a natural gas distribution company that operates in eight states and serves about 3 million customers.[1] Atmos's Kentucky/Mid-States division is one of six operating divisions that provide natural gas service in Kentucky, Tennessee, and Virginia.[2] Atmos serves approximately 176,800 customers in central and western Kentucky.[3] The most recent adjustment of Atmos's base rates was in May 2018 in Case No. 2017-00349.[4]

BACKGROUND

On August 21, 2018, Atmos submitted a notice of intent to file an application for a general rate case based upon a forecasted test period. On September 28, 2018, Atmos submitted its application based on a forecasted test period ending March 31, 2020,

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[1] Direct Testimony of Mark A. Martin (Martin Testimony) at 4.

[2] *Id.*

[3] Application at 3.

[4] Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018).

seeking an increase in revenues of $14,455,538,[5] or 15.8 percent, with a proposed effective date of October 28, 2018.[6] The average monthly bill for consumers would increase approximately $4.41, or 8.6 percent, for residential customers; $14.45, or 6.6 percent for commercial and public authority consumers; and $909.82, or 15.8 percent, for industrial and transportation customers.[7] Atmos subsequently revised its proposed revenue increase to $14,374,606.[8] Atmos submitted a depreciation study in support of its application and requested that its proposed depreciation rates be approved.[9]

Atmos states that the reasons for the requested rate increase are declining return on equity (ROE) and inadequate revenue to continue to provide the quality of service required by the Commission and demanded by its customers.[10] Atmos further asserts that the revised rates are necessary to allow Atmos the opportunity to recover its reasonable operating costs, earn a reasonable return on its investment, provide sufficient revenue to maintain its facilities, and attract additional capital.[11]

In addition to seeking a base rate increase, Atmos is requesting to cancel its current Pipeline Replacement Program (PRP) and delete the corresponding Rider tariff

[5] *See* Atmos's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 64. Atmos revised its requested increase to $14,509,652 based upon adjustments for errors acknowledged in response to both the Commission Staff's and the Attorney General's discovery.

[6] Application at 3.

[7] Application at 4.

[8] Rebuttal Testimony of Greg K. Waller (Waller Rebuttal Testimony) at 2.

[9] Direct Testimony of Dane A. Watson (Watson Testimony) at 3 and 17.

[10] Application at 4.

[11] *Id.*

in order to align its "commitment to replace bare steel pipe with the provisions" of the final Order in Case No. 2017-00349.[12] Atmos also is requesting minor text changes to its demand-side management (DSM) tariff relating to the timing of the adjustment for the distribution charge for residential and commercial G-1 sales,[13] and seeking an increase in various customer charges.[14] Lastly, Atmos is requesting to update the time period used to weather normalize revenues to the 20-year period ending June 2018, or in other words, the period of July 1998 through June 2018.[15]

A review of the application revealed that it did not meet the minimum filing requirements of 807 KAR 5:001, Section 16(7)(d); a notice of filing deficiencies was issued on October 5, 2018. Atmos filed information on October 9, 2018, to cure the noted filing deficiencies. A notice that Atmos's deficiencies had been cured was issued October 12, 2018, stating that the application met the minimum filing requirements as of October 9, 2018. Based on an October 9, 2018 filing date, the earliest possible date Atmos's proposed rates could become effective was November 8, 2018.

Pursuant to KRS 278.190(2), the Commission issued an Order on October 26, 2018, suspending the effective date of Atmos's proposed rates for six months, up to and including May 7, 2019. Further, the October 26, 2018 Order established a procedural schedule for the processing of this matter, providing for: a deadline to file intervention requests; two rounds of discovery upon Atmos's application; a deadline for the filing of

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[12] Application at 5.

[13] *Id.*, Martin Testimony at 12.

[14] Martin Testimony at 12–13.

[15] *Id.* at 15.

intervenor testimony; one round of discovery upon any intervenor testimony; an opportunity for Atmos to file rebuttal testimony; a public hearing; and an opportunity to file post-hearing briefs. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (Attorney General) is the only intervenor in the pending case.

The Commission held a formal hearing on the proposed rate adjustment for the purpose of cross-examination of witnesses on April 2, 2019, and April 3, 2019, at its offices in Frankfort, Kentucky. Pursuant to the Commission's April 3, 2019 Order, both Atmos and the Attorney General filed responses to post-hearing requests for information as well as post-hearing briefs. The case now stands submitted for a decision.

TEST PERIOD

Atmos proposed the 12 months ending March 31, 2020, as its forecasted test period to determine the reasonableness of its proposed rates.[16] The Attorney General did not object to the proposed test period or suggest an alternative test period; it did, however, criticize Atmos's development of certain items contained in the proposed test period, as discussed herein. The Commission finds Atmos's forecasted test period to be reasonable and consistent with the provisions of KRS 278.192 and Kentucky Administrative Regulation (KAR) 5:001, Section 16(6), (7), and (8). Therefore, we will accept the forecasted test period proposed by Atmos for use in this proceeding.

[16] Application at 4.

VALUATION

Rate Base

Atmos proposed a net investment rate base for its forecasted test period of $496,111,427, based on the 13-month average for that period.[17] In response to errors identified in discovery, Atmos revised this amount to $495,967,913.[18] In its rebuttal testimony, Atmos further revised its proposed rate base to $496,005,827 to reflect adjustments caused by updates to its capital structure.[19]

The Attorney General proposed to reduce Atmos's rate base to $330,448,117.[20] The Attorney General proposed to: (1) remove PRP plant additions after September 30, 2018;[21] (2) reduce non-PRP plant additions to reflect a historic 3-year average;[22] (3) adjust accumulated depreciation and accumulated deferred income taxes (ADIT) to reflect the Average Life Group (ALG) procedure instead of the Equal Life Group (ELG) procedure; (4) remove Construction Work in Progress (CWIP),[23] and; (5) reduce cash working capital to reflect the Attorney General's adjustments to Atmos's as-filed lead/lag

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[17] Application, Volume 7, FR 16(8)(b).

[18] Atmos's response to Staff's Second Request, Item 64, Attachment 1, Schedule A.

[19] Waller Rebuttal Testimony, Exhibit GKW-R-1, Schedule A-1.

[20] Kollen Testimony, Attachment Atmos_Rev_Req_-_AG_Recommendation.xlsx, Tab Rate Base; *See also* Attorney General's response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request), Item 6, Attachment. The Attorney General revised its recommended rate base to $396,074,915 based upon adjustments for errors acknowledged in response to discovery.

[21] Kollen Testimony at 14–20.

[22] *Id.* at 20–26.

[23] *Id.* at 27–35.

study.[24] The Attorney General subsequently proposed a further reduction of $2,112,592 to remove previously capitalized Allowance for Funds Used During Construction (AFUDC).[25]

As discussed later in this Order, the Commission has determined that Atmos's net investment rate base is $424,928,655, as shown below. Cash working capital has been reduced to reflect the lead/lag study Atmos filed with its application.

	Atmos Proposed	Adjustment	Adjusted
Utility Plant in Service	$ 724,669,367	$ (29,362,001)	$ 695,307,366
Construction Work in Progress	39,130,198	(39,130,198)	-
Total Utility Plant	$ 763,799,565	$ (68,492,199)	$ 695,307,366
LESS:			0
Accumulated Depreciation and Amortization	$ 194,453,459	$ 1,354,650	$ 195,808,109
Net Utility Plant	$ 569,346,106	$ (69,846,849)	$ 499,499,257
ADD:			
Cash Working Capital Allowance	$ 2,692,759	$ (987,582)	$ 1,705,177
Inventory and Prepayments	9,023,857	-	9,023,857
Subtotal	$ 11,716,616	$ (987,582)	$ 10,729,034
			$ -
DEDUCT:			
Customer Advances for Construction	$ 747,234	$ -	$ 747,234
Regulatory Assets / Liabilities	33,020,670	79,883	33,100,553
Deferred Inc. Taxes and Investment Tax Credits	50,663,356	788,492	51,451,848
Subtotal	$ 84,431,261	$ 868,375	$ 85,299,636
NET INVESTMENT RATE BASE	$ 496,631,462	$ (71,702,807)	$ 424,928,655

Capitalization

Atmos conducts utility operations in eight states through unincorporated operating divisions, which are not separate legal entities and comprise the Atmos Energy Corporation. All debt or equity funding of each division is issued by Atmos as a whole.[26] Atmos states that this consolidated capital structure is appropriate for ratemaking in

[24] *Id.* at 36–39.

[25] Attorney General's Brief, Exhibit 1.

[26] Direct Testimony of Joe T. Christian (Christian Testimony) at 6.

Kentucky because Atmos Energy Corporation provides the debt and equity capital that supports the assets serving Kentucky customers.[27] Atmos proposes to update its total capitalization for the forecasted test period to $9,211,086, to reflect financing activities through March 2019.[28] The Attorney General recommended adjustments to the proposed capitalization amount as discussed below. The Commission accepts Atmos's proposed capitalization amount.

REVENUE REQUIREMENT ADJUSTMENTS

Atmos developed an operating statement for its forecasted test period based on its budgets for the 2019 fiscal year. As required by 807 KAR 5:001, Section 16(6)(a), the financial data for the forecasted test period was presented by Atmos in the form of pro forma adjustments to its base period – the 12 months ending December 31, 2018.[29] Based on the assumptions built into its budgets, Atmos calculated its test year revenues and operating and maintenance (O&M) expenses to be $169,717,866 and $142,015,942, respectively.[30] Based on these adjusted revenues and O&M expenses, Atmos's test period operating income was $27,701,923, which based on its proposed rate base, results in a 5.58 percent overall rate of return.[31] Based on a proposed ROE of 10.40 percent,

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[27] *Id.*

[28] Rebuttal Testimony of Joe T. Christian (Christian Rebuttal Testimony) at 11.

[29] Application, Volume 7, Schedules D.1 and D.2.

[30] Application, Volume 7, Schedule C.1; Through rebuttal testimony, Atmos revised its O&M expense projections to $142,188,086; *See* Waller Rebuttal Testimony, Exhibit GKW-R-1, Schedule C.1.

[31] Application, Volume 7, Schedule C.1. Atmos's revised O&M expense result in a test period net income of $27,529,780 and 5.55 percent overall rate of return. *See* Waller Rebuttal Testimony, Exhibit GKW-R-1, Schedule C.1.

Atmos determined that it required a revenue increase of $14,455,544, which would produce an overall return on rate base of 7.95 percent.[32]

The Attorney General, based on a number of proposed adjustments to Atmos's test period results and a 9.70 percent ROE, recommended a decrease in revenues of $7,969,875.[33] Based upon corrections identified in discovery responses and additional recommendations made in his post-hearing brief, including a 9.45 percent ROE, the Attorney General updated his proposed revenue reduction for Atmos to $9,731,022.[34]

The Commission will accept components of Atmos's test period and certain proposed adjustments, but will also accept some of the Attorney General's proposed adjustments. A discussion of the individual adjustments accepted, modified, or rejected by the Commission, and the impact of those adjustments on Atmos's revenue requirement follows.

<u>Pipeline Replacement Program</u>

In 2010, the Commission initially approved Atmos's PRP to be a 15-year program to replace 250 miles of bare steel pipe and services at an estimated total cost of $124 million.[35] Atmos subsequently discovered that there were an additional 100 miles of bare

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[32] Application, Volume 7, Schedule A.1. Based on Atmos's revised O&M expense and rate base, Atmos determined that it required a revenue increase of $15,838,372 to produce a 7.93 percent overall rate of return. *See* Waller Rebuttal Testimony, Exhibit GKW-R-1, Schedule A.

[33] Kollen Testimony at 4.

[34] *See* Attorney General's Brief at 5; Attorney General's response to Staff's Post-Hearing Request, Item 6. Because the Attorney General did not quantify the adjustment, this does not include the proposed disallowance of Mr. Mark Martin's salary.

[35] Case No. 2009-00354, *Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 28, 2010); See also Case No. 2017-00349, *Atmos* (Ky. PSC May 3, 2019), Order at 37.

steel pipe to be replaced, and further added the replacement of the Shelbyville Line, at a cost of $21.7 million, and the Lake City Line, at a cost of $5.7 million, both due to safety and reliability concerns.[36] In reviewing Atmos's 2017 annual filing to update its PRP rates,[37] the Commission found in its final Order that the significant increase in the cost of Atmos's PRP Rider since it was approved in Case No. 2009-00354[38] warranted a more detailed review in Case No. 2017-00349.[39]

In Case No. 2017-00349, Atmos estimated the cost of the pipeline replacement program to be $438 million for 350 miles of bare steel pipes and services and the two additional projects.[40] Thus, the cost per mile for replacing the bare steel pipe and services more than doubled, from just under $500,000 per mile to over $1.17 million per mile.[41] In the final Order of Case No. 2017-00349, the Commission stated that the eligible bare steel pipeline replacements, for which Atmos's PRP was approved, could not be reasonably made and funded by ratepayers at the levels estimated by Atmos.[42] The Commission further noted that Atmos's annual recovery for the PRP should be limited, and that it could be limited without risk to public safety.[43] The Commission found that the

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[36] Case No. 2017-00349, *Atmos*, (Ky. PSC May 28, 2010), Order at 37.

[37] Case No. 2017-00308, *Electronic Application of Atmos Energy Corporation for PRP Rider Rates* (Ky. PSC Oct. 27, 2017).

[38] Case No. 2009-00354, *Atmos* (Ky. PSC May 28, 2010).

[39] Case No. 2017-00349, *Atmos* (Ky. PSC May 3, 2018), Order at 40.

[40] *Id.* at 37.

[41] *Id.* at 37–38.

[42] *Id.*

[43] *Id.*

time frame of Atmos's PRP should be extended and the annual ratepayer-funded PRP investment should be limited to $28 million, barring identification of a PRP-eligible pipeline-related hazard that could not have been reasonably foreseen.[44] The Commission also asserted that "$28 million in annual investment should cause the remaining PRP for bare steel replacement to be complete in 8 - 9 years beginning in 2019 with estimated completion in 2027, adding two years to the originally approved 15-year timeframe."[45] The Commission found that the annual investment amount of $28 million was reasonable based on Atmos's average actual annual PRP investment from 2012 through 2017.[46]

The Commission also questioned the reliability of the estimates and the reasonableness of the PRP as it had been structured due to Atmos basing its PRP investment projections on a 12 percent annual escalation instead of specific projects.[47] Thus, the Commission ordered that Atmos's recovery of the PRP investment should be based on actual spending, subject to the $28 million cap, in a historic 12-month period, and that budget estimates for funding a future PRP period would no longer be accepted as the basis for calculating the PRP Rider rate.[48]

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[44] *Id.* at 41.

[45] *Id.*

[46] *Id.*

[47] *Id.* at 41–42.

[48] *Id.* at 42.

In the pending application, Atmos requests to cancel the PRP and delete the associated PRP tariff "in light of the Commission's Order in Case No. 2017-00349."[49] Atmos states that it is agreeable and committed to achieving the PRP investment target of $28 million per year for the bare steel replacement and to the modified completion timeline.[50] However, Atmos contends that the modification of the PRP to historical, lagged recovery of investment as required by the final Order in Case No. 2017-00349, as opposed to the prospective treatment that was previously afforded to Atmos, is financially detrimental.[51] Atmos argues that for utilities such as it, which employ frequent comprehensive forward-looking rate cases pursuant to KRS 278.192, integrating a historical test-year PRP rider creates significant mathematical and accounting challenges.[52] Atmos insists that timely recovery of costs associated with high levels of capital investment is financially essential, and that recovery lagged for historic test year filings would strand unavoidable costs.[53] Atmos further states that the historical recovery for the PRP investment results in a regulatory construct that systematically prevents earning its authorized return on equity (ROE).[54]

Finally, Atmos maintains that KRS 278.509, which is the statute that governs the recovery of costs for investment in natural gas pipeline replacement programs, is a

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[49] Martin Testimony at 14; Application at 5.

[50] Martin Testimony at 14–15.

[51] *Id.*

[52] Atmos's Post-Hearing Brief (Atmos's Brief) at 22.

[53] *Id.*

[54] Direct Testimony of Gregory K. Waller (Waller Testimony) at 11.

permissive statute, and as such, Atmos is not required to have a PRP or a PRP Rider.[55] Thus, Atmos proposes to withdraw the PRP, delete the associated PRP Rider, and to avail itself of KRS 278.192 for all of its pipeline replacement recovery, thereby transferring the ratemaking for the replacement of facilities that would have qualified under the PRP to an annual forward-looking rate case.[56]

The Attorney General argues that Atmos's request to cancel the PRP and delete the associated PRP tariff is an attempt to circumvent the customer safeguards that the Commission imposed upon Atmos's PRP in Case No. 2017-00349.[57] The Attorney General avers that Atmos's pending proposal would significantly change the timing of cost recovery by allowing Atmos to recover in rate base both the actual PRP costs incurred through the historic period ending September 30, 2018, and also the forecasted PRP costs from October 1, 2018, through March 31, 2020.[58] Rather than limiting the total cost recovery for the PRP to $28 million, the Attorney General asserts that Atmos is now seeking to include an additional $42 million in PRP costs in the base revenue requirement.[59] Based upon the final Order from Case No. 2017-00349, the Attorney General states that the PRP costs incurred from October 1, 2018, through September 30,

[55] Rebuttal Testimony of Mark A. Martin (Martin Rebuttal Testimony) at 4.

[56] Atmos's Brief at 22; Martin Testimony at 6 and 14.

[57] Attorney General's Post-Hearing Brief (Attorney General's Brief) at 15; Direct Testimony of Lane Kollen (Kollen Testimony) at 16.

[58] Attorney General's Brief at 16; Kollen Testimony at 17.

[59] Attorney General's Brief at 17–18; Kollen Testimony at 18. (Mr. Kollen breaks down the $42 million PRP costs from October 1, 2018 through March 31, 2020 as follows: $28 million in fiscal year 2019 from October 1, 2018 through September 30, 2019, plus $14 million in fiscal year 2020 from October 1, 2018 through March 31, 2020.)

2019, would not have been eligible for recovery through the PRP Rider until March 1, 2020.[60] Likewise, the costs incurred from October 1, 2019, through March 31, 2020, would not have been eligible for recovery through the PRP Rider until March 1, 2021."[61]

The Attorney General recommends that Atmos's request to terminate the PRP be rejected, and that Atmos be directed to continue the PRP and recover PRP associated investment as prescribed in the final Order of Case No. 2017-00349.[62] In rebuttal to the Attorney General's arguments concerning the historical, lagged recovery, Atmos states that the Attorney General's position to require it to utilize the PRP to replace bare steel pipeline through 2027 on a historic, lagged basis would be confiscatory.[63]

The Commission's history of supporting and encouraging natural gas pipeline replacement through approval of reasonable PRP programs, tariffs, and riders is well known and speaks for itself.[64] The Commission's previous steps to limit Atmos's PRP recovery were in response to the record developed in Case No. 2017-00349, regarding an unconscionable level of projected PRP investment by Atmos. The Commission has never before withdrawn approval of a forward-looking PRP program in favor of historical recovery based on actual spending for any other natural gas utility, and the Commission urges Atmos to take note of this fact.

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[60] Attorney General's Brief at 16.

[61] *Id.*

[62] *Id.*, Kollen Testimony at 19–20.

[63] Martin Rebuttal Testimony at 6.

[64] *See*, e.g., the Commission's establishment of a PRP Rider for Duke Energy Kentucky, Inc. in 2002, prior to the enactment of KRS 278.509.

The Commission agrees in part with the Attorney General in that continued use of the PRP is the most appropriate method for accelerating the replacement of aging and unsafe bare steel pipelines by Atmos. Therefore, we will require Atmos to continue utilizing the PRP to accelerate the replacement of bare steel pipelines in its system. The Commission has consistently found that the public interest is served by replacing potentially unsafe, aged gas pipelines through the adoption of pipeline replacement programs that have been approved as being fair, just, and reasonable. To the extent that the pipeline eligible for replacement poses a safety risk to the utility's customers, service areas, and employees, the Commission reiterates that it is in favor of accelerated replacement. The Commission believes that pipeline replacement programs improve public safety and reliability of service for customers. These policy objectives were the Commission's motivation to initially allow Atmos to implement the PRP in Case No. 2009-00354, and the reason that the Commission still believes that the accelerated replacement of bare steel pipelines in Atmos's system should be performed under the provisions of its existing PRP.

Through the PRP process, the Commission is able to separately review and scrutinize each project and expenditure annually, with the opportunity for the Attorney General, and potentially others, to intervene in the PRP proceedings. The Commission finds that the already established separate review for the accelerated replacement of bare steel pipelines in Atmos's system to be a more streamlined and efficient process than Atmos's proposal to include the PRP projects in an annual base rate case. During a base rate case, a multitude of issues are examined in detail by the parties and the Commission.

If PRP projects are also included in the base rate case then the Commission and the intervenors may not have adequate time to review and analyze the proposed projects.[65]

However, the Commission also agrees in part with Atmos, that based upon the magnitude of the PRP investment, it is reasonable for it to continue to be given prospective treatment in order to avoid the regulatory lag inherent in the historical treatment adopted in Case No. 2017-00349. Atmos states in the pending application that it is "agreeable and committed to achieving the investment target" for the PRP as designated by Case No. 2017-00349,[66] and attests that Atmos is committed to completing the remaining 188 miles of bare steel pipeline replacement by 2027.[67] It appears that the only modification to the PRP that Atmos finds impracticable is the historical, lagged recovery. The Commission is persuaded by Atmos's argument that integrating the historical test-year PRP rider can create mathematical and accounting challenges for Atmos because it has consistently utilized forward-looking rate cases pursuant to KRS 278.192.

No customer safeguards will be eroded by allowing Atmos to utilize prospective treatment with regard to the PRP filings because the annual ratepayer-funded PRP investment for bare steel pipeline replacement will still be limited to $28 million and the

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[65] In Atmos's Reply Brief in Case No. 2017-00349, Atmos asserts "...PRP expenditures are susceptible to more scrutiny in a stand-alone annual PRP filing[s] [sic] than in a regular rate case where literally thousands of other pieces of financial information are presented for review by the Commission." Atmos further stated that placing the PRP projects in base rate cases would "necessarily limit the time and depth of analysis currently afforded to the Commission."

[66] Martin Testimony at 14–15.

[67] Atmos's response to Commission Staff's First Post-Hearing Request for Information (Staff's First Post-Hearing Request), Item 7.

program will be completed by 2027, barring the identification of a PRP-eligible pipeline-related hazard that could not have been reasonably foreseen. The Commission finds no merit in Atmos's argument that because the statutory provision for creating a PRP is voluntary, the Commission lacks the authority to deny a request to terminate an existing PRP. Once a rate such as the PRP is approved by the Commission as being fair, just, and reasonable, it can be discontinued only upon a subsequent similar finding by the Commission. Here, we find that discontinuing the PRP would not be fair, just, or reasonable. Furthermore, pursuant to KRS 278.509, the Commission will continue to only allow Atmos recovery of PRP investment costs that have been deemed fair, just, and reasonable.

The Commission's decision to continue Atmos's PRP utilizing forward-looking estimates of capital expenditures, as used since its adoption in 2010, does not include approval of pipeline replacements beyond what it is currently authorized, as the pace of replacements and the magnitude of customer surcharges remain a concern. The amounts included in the forecasted test-period for PRP-eligible projects for the period October 1, 2019, through March 31, 2020, were based on Atmos's fiscal year 2019 budget. The Commission will reinstate Atmos's PRP Rider on a forecasted basis. Therefore, the Commission finds that the estimated amounts of PRP-eligible capital additions included after September 30, 2019, should be removed from base rates and recovered through the PRP Rider. This reduces Atmos's rate base by $4,998,962; depreciation expense by $90,707; and ad valorem taxes by $34,190, which results in revenue requirement reductions of $502,528; $91,346; and $34,431 respectively, for a total revenue requirement reduction of $628,305.

Depreciation Expense

Atmos proposes to change its depreciation rates at the beginning of the test year to reflect the results of a depreciation study submitted with its application.[68] Atmos proposes the continued use of the ELG procedure in developing its depreciation rates.[69] The Attorney General recommends the Commission adopt the ALG procedure in developing Atmos's depreciation rates.[70] The Attorney General contends that the ALG methodology is the predominant procedure used by other electric and gas utilities, including all other investor-owned electric and gas utilities in the Commonwealth of Kentucky, for developing depreciation rates.[71] The Attorney General explains that under the ELG methodology, the capital recovery periods are accelerated and shortened and, thus, the depreciation rates are greater than if the ALG procedure were used.[72] The Attorney General insists that the ALG procedure is as accurate as the ELG procedure, but the ALG procedure smooths the data so that the depreciation rates for the group of assets tend to remain constant, all else being equal over the service life of the group.[73] Use of the ALG procedure will decrease Atmos's depreciation expense by $7,352,738, for a revenue requirement reduction of $7,404,568.

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[68] Direct Testimony of Dane A. Watson (Watson Testimony) at 3 and 17.

[69] *Id.* at 6–7.

[70] Kollen Testimony at 7–14.

[71] *Id. at* 7.

[72] *Id.* at 11.

[73] *Id.* at 13–14.

This Commission has previously found that the ELG procedure does not accurately match revenues and expenses, is front-loaded, and should not be allowed for ratemaking purposes.[74] The Commission finds that Atmos's proposed ELG procedure does not produce fair, just and reasonable rates, and that Atmos's depreciation rates should reflect the ALG procedure. While a reduction of the full amount is warranted, the Commission, in light of Atmos's historic use of the ELG procedure, will only reduce Atmos's revenue requirement by half the Attorney General's proposed amount, and will require Atmos to establish a regulatory liability without carrying charges for the remainder, the amortization of which will be addressed in Atmos's next base rate case. This gradual approach will ensure that Atmos's customers receive the full benefit of the reasonable deprecation methodology, while limiting the impact of the change on Atmos. This adjustment results in an expense reduction of $3,676,784, for a reduction in Atmos's revenue requirement of $3,702,701, and also increases Atmos's rate base through the reduction in accumulated depreciation and ADIT of $1,805,638 and $450,507, respectively, for an increase in Atmos's revenue requirement of $226,802. The net impact to Atmos's revenue requirement is a decrease of $3,475,899.

Other Capital Expenditure Adjustments

In the pending case, Atmos does not argue that the Commission's limitation on its annual capital spending for the replacement of bare steel pipes of $28 million is unreasonable. However, although Atmos accepts this limitation on the rate at which it

[74] Case No 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All Other Required Approvals and Relief* (Ky. PSC Apr. 13, 2018), Order at 26–27.

may replace bare steel pipes, it made no change in its total projected capital spend for its fiscal years 2019 and 2020.[75] Rather, Atmos simply shifted the capital it expected to spend on bare steel replacement to other capital projects, referred to alternatively by the parties as non-PRP and non-bare steel projects, such that there was no change in Atmos's budget for fiscal years 2019 and 2020.[76] As a result of that shift, Atmos's spending on non-PRP capital projects went from $33.9 million in 2018 to $58.7 million in 2019 and $68.7 million in 2020.[77] Moreover, that increase was in addition to an increase from $18.6 million in 2015 to $34.2 million in 2016.[78]

Atmos did not obtain a Certificate of Public Convenience and Necessity (CPCN) for any of the projects it claims account for the spending identified above.[79] Rather, Atmos asserted its belief that none of the projects required a CPCN, because they were in the ordinary course of business. Atmos based that argument, in part, on its contention that none of the projects materially impacted its financial condition, because they did not exceed two percent of its plant in service.[80] However, a number of projects identified by

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[75] Atmos's Response to Commission Staff's Fourth Request for Information (Staff's Fourth Request), Item 4(a).

[76] *See* Atmos's Response to Staff's Fourth Request at Item 4(b)(Atmos acknowledges that the non-PRP spending, also discussed as the non-bare steel spending, increased by approximately the same amount that the PRP spending decreased due to the limitation).

[77] Atmos's Response to Staff's Third Request, Item 22(a).

[78] *Id.*

[79] April 2, 2019, Hearing Transcript at 2:07-2:08 (Atmos's witness indicated that he was not aware of Atmos requesting any CPCNs).

[80] Atmos's Response to Staff's Third Request, Item 27.

Atmos did fall outside of Atmos's own standard.[81] More importantly, a utility is prohibited from engaging in capital spending for the construction of facilities that would result in wasteful duplication, regardless of whether a CPCN is required.[82]

Atmos primarily argues that its proposed non-PRP capital expenditures, which it referred to as non-bare steel capital expenditures, were necessary to maintain and accelerate the pace of the replacement of aging facilities in its Kentucky distribution system and to address other non-bare-steel materials.[83] Specifically, although Atmos acknowledged its system is currently safe and reliable, Atmos argues that the accelerated replacement of certain non-bare-steel facilities — including Aldyl-A pipes, other early polyethylene pipes, low-pressure systems, and unlocatable pipes — will increase the safety and reliability of its system.[84] Atmos argues that "a critical aspect to ensuring safety and reliability of the Company's system in Kentucky is dependent on the Company continuing its targeted investment for non-bare steel [non-PRP] projects."[85] Thus, Atmos

[81] *See* April 2, 2019 Hearing Transcript at 2:07–2:08 (Atmos's witness indicated that Atmos did not do many projects that came close to the $10 million level, i.e. the two percent threshold identified by Atmos); Atmos's Response to Staff's Second Post-Hearing Request, Item 1, Attachment 1 (identifying a number of projects in fiscal 2019 alone that exceeded $10 million).

[82] KRS 278.020(1), in relevant part, prohibits a utility from constructing any plant, equipment, property, or facility without the Commission's approval, except for "ordinary extensions of existing systems in the usual course of business. The Commission will not grant a CPCN unless the utility establishes that the facility the utility intends to construct will not result in "wasteful duplication." Kentucky Utilities Co. v Pub. Serv. Comm'n, 252 S.W.2d 885 (Ky. 1952). Further, pursuant to 807 KAR 5:001, Section 15(3) a facility is not considered to be in the ordinary course of business if it results in wasteful duplication. Thus, regardless of whether a CPCN is required, a utilities construction of any plant, equipment, property, or facility may not result in wasteful duplication. *See also* Atmos's Brief at 53 ("The issue is whether based on the evidence in this record, Atmos Energy has demonstrated that its replacement proposal, its budgeting reliability and its efforts to maintain a safe pipeline system in Kentucky is reasonable.")

[83] Atmos's Brief at 25.

[84] Atmos's Brief at 25–31.

[85] Atmos's Brief at 32.

contends that the Commission should permit Atmos's projected non-PRP capital spending at the levels proposed by Atmos.

However, the Commission is unable to find from the evidence that Atmos's proposed level of spending on non-PRP projects is reasonable or necessary. First, the increase in spending on non-PRP capital projects in 2019 and 2020 was driven primarily by the Commission's limitations on the bare steel spending through the PRP.[86] Atmos indicates that, absent the $28 million limitation on bare steel investment, spending on non-PRP projects would have been limited to the pre-2019 levels.[87] Atmos's witness also reluctantly acknowledged that Atmos would have been required to delay some of the proposed non-PRP projects if the capital that was allocated to those projects had been used to fund bare steel projects.[88] Thus, the Commission finds Atmos would not have proposed to increase its capital spending above pre-2019 levels for the non-PRP projects if Atmos's spending on bare steel had not been limited. The Commission further finds that there is no reasonable basis to assume that Atmos's need to spend on non-PRP projects has increased simply because its spending on PRP projects has been limited to $28 million. The willingness of Atmos to fund capital projects on an accelerated basis

[86] Kollen Testimony at 23 ("There is no question that Atmos is intentionally and aggressively driving up its annual capital expenditures year after year. Atmos has met the Commission's attempt to limit the annual PRP investment to $28 million with staggering increases in annual non-PRP investment. The Atmos forecast total direct investment is unaffected by the Commission's attempt to reign in its PRP investment.").

[87] *See* Atmos Response to Staff's Fourth Request, Item 4 (Atmos acknowledges that the non-PRP spending, also discussed as the non-bare steel spending, increased by approximately the same amount that the PRP spending decreased due to the limitation); April 2, 2019 Hearing Transcript at 1:52:00 – 1:55:30.

[88] April 2, 2019 Hearing Transcript at 1:52:00 – 1:55:30; *See also* Case No. 2017-00349, *Atmos* (Ky. PSC May 3, 2018); Atmos's Response to Commission Staff's Third Post Hearing Request for Information, Item 3 ("The Company currently has identified at-risk pipe such as early generation and un-locatable plastic which it anticipates proposing for replacement under the PRP starting in 2023.").

does not make those investments necessary and does not obligate the Commission to allow recovery of accelerated investments in the absence of a showing of need by Atmos.

Moreover, although Atmos claims it presented a detailed record of the prudency of its projects,[89] Atmos's proposed level of spending is not justified by the projects it presents in support of that spending. Atmos's proposed capital spending in the forecasted test year is only supported by actual projects in the first six months of the test year.[90] In the last six months of the forecasted test year, Atmos simply carries forward its proposed capital spending for the same month of the previous year.[91] It is unlikely that amounts spent on specific projects in a given month would be the same as amounts in the same month of the previous year. Thus, the Commission questions the accuracy of those projections.

More importantly, Atmos failed to demonstrate that the accelerated replacement of certain facilities it contends present safety or reliability issues justify its accelerated level of spending. For instance, Atmos refers to Pipeline and Hazardous Materials Safety Administration (PHMSA) advisories to support an accelerated level of replacement of Aldyl-A pipes and other vintage polyethylene pipes, but the PHMSA notice placed in the record suggested monitoring those pipes and does not mandate or recommend

[89] Atmos's Brief at 32.

[90] *See* Atmos's Response to Staff's Third Request at Item 27, Attachment 1 (in which Atmos presented the projects that it claims support its proposed capital spending); *see also* April 2, 2019 Video at 1:59:00-2:03 (where Mr. Smith indicated that he was not aware of any other document in the record in which Atmos identified capital projects in support of its proposed spending).

[91] *See* Atmos's Response to Staff's Third Request, Item 27, Attachment 1 (in which Atmos presented the projects that it claims support its proposed capital spending); Atmos's response to Staff's Second Request, Item 64, Attachment 2, KY_Plant_Data-2018_case.xlsx, Tab Capital Spending.

immediate replacement.[92] Moreover, the PHMSA notice refers to pre-1973 Aldyl-A as presenting an issue,[93] but Atmos argues for the replacement of all Aldyl-A in its system.[94] Similarly, Atmos justified its spending on farm taps based on PHMSA rules, but PHMSA has indicated an intent to stay enforcement of those rules.[95] Atmos's witness also acknowledged that pipe Atmos identified as presenting safety or reliability issues either had been replaced in many of the densely populated areas where it would present a greater risk or was located outside those areas.[96]

The Commission affirmatively supports allowing the accelerated replacement of facilities that present safety or reliability issues. As Atmos pointed out, the Commission recognized concerns about Aldyl-A in Case No. 2018-00086.[97] However, in that case, Delta Natural Gas Company, Inc. acknowledged that all Aldyl-A did not need to be replaced immediately, but rather indicated that it had identified specific sections of Aldyl-A that should be immediately replaced and that it anticipated replacing the remainder of its Aldyl-A over the next 15 to 19 years. Conversely, the evidence indicates that Atmos

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[92] *See* April 2, 2019 Hearing Transcript at 2:13–2:14 (in which Mr. Smith acknowledged it does not require immediate replacement); *See also* Smith Rebuttal at Exhibit GWS-R-1 (discussing monitoring and other risk mitigation options).

[93] Smith Rebuttal at Exhibit GWS-R-1 (in which the PHMSA notice refers to Aldyl-A manufactured prior to 1973).

[94] *See* April 2, 2019 Hearing Transcript at 1:59–2:02; April 2, 2019 Hearing Transcript at 2:48–2:50.

[95] April 2, 2019 Hearing Transcript 2:30:30–2:31:39 (indicating that PHMSA issued a stay of enforcement while they consider withdrawing rules).

[96] April 2, 2019 Hearing Transcript 2:43–2:48; *See also* April 2, 2019 Hearing Transcript 2:39–2:42 (Atmos's witness acknowledged that federal safety regulations do not require the repair of Grade 3 leaks, which Atmos attempts to repair within 36 months).

[97] Case No. 2018-00086, Electronic Adjustment of the Pipe Replacement program Rider of Delta Natural Gas Company, Order (KY PSC, August 21, 2018).

intends to replace Aldyl-A as quickly as it can obtain capital to do so regardless of the specific need to replace any particular section of pipe. It is this type of capital investment that concerns the Commission, particularly given the significant increases in Atmos's overall capital spending. Thus, the Commission is not able to find that Atmos's proposed level of spending on non-PRP capital projects is reasonable and necessary at this time.

The Commission acknowledges that some level of non-PRP spending is necessary, but Atmos has not shown that it is reasonable to increase non-PRP spending to include the capital that would have been spent on PRP projects but for the $28 million limitation. It is not possible nor appropriate for the Commission to determine the adequate level of non-PRP spending by reviewing and prioritizing individual projects. Historic investment in the system has resulted in a safe and reliable system, according to Atmos' testimony. Atmos indicated in its testimony that the number of pipeline leaks detected has decreased, even in light of better detection equipment and more frequent leak surveys. Therefore, projected capital spending on non-PRP projects should be limited to a 5-year 2014 through 2018 historical average of $29.26 million. Prioritizing individual non-PRP projects within that limit on capital spending is a task to be performed by Atmos.

Atmos performs an assessment and analysis of its pipelines as required by PHMSA. These plans, the Distribution Integrity Management Plan (DIMP) and the Transmission Integrity Management Plan (TIMP), are provided to the Commission's pipeline safety inspectors. Capital project spending should be consistent with the DIMP and TIMP as well as limited to the 5-year historical average of capital spending on non-PRP projects. This reduces Atmos's rate base by $28,089,966; depreciation expense by $491,659; and ad valorem taxes by $193,209, which results in revenue requirement reductions of $2,823,783; $495,125; and $194,571, respectively. The net impact of this adjustment is a revenue requirement reduction of $3,513,478.

Moreover, while the Commission is not imposing a specific limit on Atmos's non-PRP capital spending in years after the forecasted test period, the Commission may prohibit a return of and on investments that it finds unreasonable or unlawful. Atmos should ensure that the projects it selects to construct are consistent with its DIMP or TIMP. Moreover, if its total non-PRP capital spending exceeds the 5-year rolling average, Atmos should scrutinize the justification for its projects closely and be prepared to provide supporting documentation showing how each project is consistent with its DIMP or TIMP. Significant increases in capital spending would raise questions about the necessity of the spending and may require additional scrutiny by the Commission.

AFUDC or CWIP

Utilities can include either CWIP or AFUDC in rate base to recover financing costs of construction projects. Historically, the Commission has allowed Atmos to include CWIP, net of AFUDC, in rate base; however, in response to discovery, Atmos revealed that AFUDC capitalized in prior periods is still included in rate base as a component of net plant. Atmos argues that removal of CWIP introduces regulatory lag on projects that will be in service and proposes that the Commission make any changes on a prospective basis.[98] Atmos further argues that the removal of allocated CWIP from divisions that do not record AFUDC results in denial of return on investment and AFUDC.[99]

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[98] Waller Rebuttal Testimony at 9–10.

[99] *Id.* at 10.

The Attorney General recommends removing CWIP and previously capitalized AFUDC from rate base.[100] The Attorney General argues that Atmos was not authorized to record AFUDC for ratemaking purposes and advocates for the construction finance costs to be capitalized and recovered over the service lives of the assets.[101]

The Commission agrees with the Attorney General that Atmos is entitled to only include either AFUDC or CWIP in rate base. Atmos does not have the vintage data to calculate AFUDC currently included in net plant before 2006.[102] The Commission finds that CWIP should be excluded from rate base, a revenue requirement reduction of $3,933,618.

Atmos states that if CWIP is removed from rate base then short-term debt must be removed from the capital structure because short-term debt is primarily used to finance CWIP.[103] However, Atmos has not shown that it can trace the use of capital such as short-term debt to demonstrate that CWIP is supported solely by short-term debt and that absent CWIP there would be no short-term debt. This argument is unpersuasive as other

[100] Attorney General's Brief at 19–22.

[101] *Id.*

[102] Atmos's response to Commission Staff's Fifth Request for Information (Staff's Fifth Request), Item 10.

[103] Christian Rebuttal Testimony at 14; Atmos's Brief at 6.

utilities that exclude CWIP include short-term debt in their capital structures[104] and the Commission finds that no change to the capital structure is warranted.

Atmos's Benefits/Salaries/Wages/SERP

The Commission is in agreement with the level of salaries and wages for Atmos's forecasted test year. Consistent with Commission precedent in Case No. 2017-00349, Atmos made reductions to its revenue requirement to remove for ratemaking purposes its 401(k) matching contributions in the amount of $518,619 for those employees also under a defined benefit plan, incentive compensation of $962,983, and director's stock expense of $189,721.[105] Through discovery, it was determined that Supplemental Executive Retirement Program (SERP) expenses of $148,405 were paid by Atmos during the forecasted test year.[106]

The Attorney General raised the issue of SERP compensation expenses at the hearing. While the Commission has traditionally denied compensation tied to financial performance standards, the record in this proceeding does not include the basis for SERP compensation. For this reason, the Commission finds the record in this proceeding does

[104] *See* Case No. 2016-00162, *Application of Columbia Gas of Kentucky, Inc. for an Increase in Base Rates* (Ky. PSC Dec. 22, 2016); Case No. 2017-00179, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Required Approvals and Relief* (Ky. PSC Jan. 18, 2018); and Case No. 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All Other Required Approvals and Relief* (Ky. PSC Apr. 13, 2018).

[105] Application, Volume 7, Schedules F.10 and F.11.

[106] Atmos's responses to the Attorney General's First Request for Information, Item 53, and Commission Staff's First Post-Hearing Data Request, Item 31.b.

not support the adjustment to disallow Atmos's SERP expenses as requested by the Attorney General. Nonetheless, the Commission will require Atmos to address the inclusion of the SERP expenses in rates in its next base rate proceeding, and based upon the evidence in the record at that time, may make an adjustment to disallow the SERP expenses.

Composite Allocation Factors

The Attorney General avers that the composite factors used to allocate expenses from Atmos's Shared Service Division and General Office Division to Atmos are unreasonable and recommends a revenue requirement reduction of $724,553, to account for the modification of the composite factors.[107]

While the Attorney General's proposed revision to the composite factors would result in less expense to Atmos, the Commission is unable to find that those revisions are appropriate. Atmos provided the allocation factors for fiscal years 2018 and 2019 for the Share Service Division and General Office Division for all states in which it operates and the allocation factors totaled 100 percent.[108] Therefore, the Commissions finds the allocation factors proposed by Atmos to be reasonable and no adjustment should be made to the composite factors.

Cash Working Capital Allowance

Atmos filed a lead/lag study with its application in this proceeding. Atmos proposes to include a cash working capital requirement of $2,692,759 in the test-year rate base.[109]

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[107] Attorney General's Brief at 32–33.

[108] Atmos's response to Staff's Fifth Request, Item 1.

[109] Application, Volume 7, Schedule B.1 F.

The Attorney General proposed a reduction to the revenue requirement of $845,932 to reflect cash working capital based on the removal of non-cash items from the lead/lag study.[110]

The Commission finds that the cash working capital allowance included in Atmos's rate base should be based upon the lead/lag study as filed, adjusted for expenses found reasonable herein. Accordingly, the Commission will reduce Atmos's rate base by $987,582, a revenue requirement reduction of $99,278.

Rate Case Regulatory Asset and Amortization

Atmos proposes to include $255,014 in rate base for the 13-month average of a regulatory asset for its expenses related to this proceeding.[111] Atmos also proposed a 3-year amortization period for this regulatory asset, resulting in amortization expense of $112,435.[112] Atmos projected rate case expenses of $337,304 but only actually incurred $189,861.[113] Updating Atmos's proposed amounts to actuals reduces the 13-month average balance by $79,883 and the amortization amount by $49,147. The decreased regulatory asset balance results in a revenue requirement reduction of $49,494 and the decreased amortization expense results in a revenue requirement reduction of $8,063.

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[110] Attorney General's Brief at 22–24.

[111] Application, Volume 7, Schedule F.6.

[112] *Id.*

[113] *Id.*; Atmos's supplemental response to Commission Staff's First Request for Information, Item 58, Attachment 1 (filed Mar. 29, 2019).

PRO FORMA ADJUSTMENTS SUMMARY

The effect of the Commission's adjustments on Atmos's pro forma test-period operations is as follows:

	Atmos Forecasted Test Period	Commission Accepted Adjustments	Commission Adjusted Test Period
Operating Revenues	$169,717,866	$ -0-	$ 169,717,866
Operating Expenses	142,015,942	(4,278,864)	137,737,078
Net Operating Income	$ 27,701,923	$ 4,278,864	$ 31,980,788

RATE OF RETURN

Capital Structure and Cost of Debt

The Kentucky/Mid-States Division of Atmos Energy Corporation is not a separate legal entity, and therefore Atmos Energy Corporation issues all debt or equity funding. For ratemaking purposes, the proposed capital structure is equivalent to the Atmos Energy Corporation capital structure as of June 30, 2018, with an adjustment to the outstanding long-term debt. This proposed capital structure consists of 38.31 percent long-term debt at a cost of 4.72 percent; 3.44 percent short-term debt at a cost of 2.40 percent; and 58.24 percent common equity with a proposed ROE of 10.40 percent.[114] The adjustment to the long-term debt reflects the then-anticipated March 2019 refinancing of $450 million, plus any other costs associated with this refinancing at an interest rate of 5.07 percent.[115]

[114] Atmos's response to Staff's Second Request, Item 64, Schedule J.1.

[115] *Id.*

The Attorney General raises concern over the capital structure, noting an increase in the common equity ratio paired with the requested ROE.[116] The Attorney General points out that the common equity portion has increased from 52.57 percent, as approved in Atmos' last rate case, Case No. 2017-00349,[117] to 58.24 percent in the pending case.[118] The Attorney General notes that the increase in common equity, paired with Atmos' proposed ROE of 10.4 percent, significantly increases the cost of capital and base revenue requirement.[119] The Attorney General also maintains that the proposed capital structure and cost of debt does not reflect the October 2018 Long-Term Debt Issuance for $600 million at 4.30 percent interest.[120] The Attorney General recommends capping the common equity portion of the capital structure at 54.3 percent, which is the capital ratio after adjusting for the October debt issuance.[121] In further support of the common equity cap, the Attorney General points out that the average common equity ratio for the proxy group used in the ROE analysis is approximately 53 percent.[122]

The Attorney General also proposes to reduce the cost of the forecasted March 2019 Long-Term debt issuance.[123] As proposed by Atmos, the 5.07 percent interest rate

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[116] Kollen Testimony at 39–48.

[117] Case No. 2017-00349, *Atmos* (Ky. PSC May 3, 2018).

[118] Kollen Testimony at 39–40.

[119] *Id.* at 40.

[120] *Id.* at 42.

[121] *Id.* at 41.

[122] *Id.* at 40.

[123] *Id.* at 43–45.

is the sum of the forecasted 30-year Treasury yield of 3.78 percent plus a 1.00 percent credit spread and 0.29 percent issuance fees.[124] The Attorney General recommends using a more current 30-year Treasury yield of 3.10 percent, plus the credit spread and issuance fees, for a forecasted rate of 4.39 percent.[125]

In rebuttal, Atmos rejects the Attorney General's proposed cap for the common equity and argues that the common equity ratio in the proposed capital structure is within the 50 – 60 percent range that is common today, and is the result of increased investment in infrastructure across Atmos's distribution utilities.[126] Atmos further argues that a higher common equity ratio is characteristic of the current trend for utilities to strengthen the equity portion of their balance sheets in order to counter the impact that the Tax Cuts and Jobs Act has had on financial metrics.[127] Atmos avers that it has intentionally improved its credit metrics through increased equity and decreased reliance on debt financing for more favorable access to capital markets.[128]

Atmos agrees that the cost of long-term debt should be adjusted to reflect the October 2018 debt issuance, but believes that all of the capital structure components should also be updated, including an equity issuance in November 2018 and the March 2019 debt issuance. Updating the capital structure with these known and measurable adjustments, including an update to the short-term debt rate, results in a capital structure

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[124] *Id.* at 44.

[125] *Id.*

[126] Christian Rebuttal Testimony at 5–6.

[127] *Id.* at 6.

[128] *Id.* at 7.

of 39.73 percent long-term debt at a cost of 4.56 percent; 2.21 percent short-term debt at a cost of 3.40 percent; and 58.06 percent common equity.[129]

In the post-hearing brief, the Attorney General reemphasizes his position that the common equity ratio is out of proportion not only to Atmos' needs but also in comparison to its peer companies.[130] In support of this position, the Attorney General provided the common equity ratios from the most recent SEC Form 10-K filings of each proxy group company, and found the average to be 50.2 percent, hence revising his position to cap common equity at 50.2 percent, or, at a minimum, the amount approved in the last rate case of 52.57 percent.[131] The Attorney General further justifies a lower common equity portion by noting that Atmos's proposed capital structure directs more of its required rate of return to shareholder profits.[132] The Attorney General observes that 76.30 percent of the revenue impact resulting from the cost-of-capital return on the proposed rate base relates exclusively to shareholder return.[133] The Attorney General agrees with Atmos's updated actual long-term debt rate of 4.56 percent for the October 2018 and March 2019 debt issuances, but is silent on all other capital structure updates.[134]

The table below lists the common equity ratios for Atmos's present and past three rate cases:

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[129] *Id.* at 8–11.

[130] Attorney General's Brief at 25.

[131] *Id.*

[132] *Id.* at 27.

[133] *Id.*

[134] *Id.* at 26.

Case No.	Common Equity Ratio
Pending Case	58.06%
2017-00349[135]	52.57 %
2015-00343[136]	None specified
2013-00148[137]	49.16 %

Atmos's common equity ratio has had average annual increases of 18.10 percent.[138] This increase in common equity is also illustrated in Exhibit JTC-R-1 of the Rebuttal Testimony of Joe T. Christian. As noted above, Atmos admits to strengthening the equity component and contends that this upward movement is the result of increased investment.[139] Atmos provides the capital structure ranges since 2012 from Atmos Energy Corporation's SEC Form 10Ks noting that the parent company raised the top of its range to 60.00 percent in 2017 in order to maintain a strong balance sheet and credit rating.[140]

Atmos's increase in common equity is concerning to the Commission, especially as compared to the proxy companies, which the Attorney General contends have a current equity ratio of 50.2 percent. Further, Atmos stated that the average debt/equity ratio for the proxy group, as reported by Value Line for 2021 – 2023, is 44 percent debt and 56 percent equity; whereas, Atmos's proposed capital structure is 40.63 percent debt

[135] Case No. 2017-00349, (Ky. PSC May 3, 2018), Order at 20.

[136] Case No. 2015-00343, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Aug. 4, 2016).

[137] Case No. 2013-00148, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Apr. 22, 2014) at 9.

[138] This increase in common equity is also illustrated in Exhibit JTC-R-1 of the Christian Rebuttal Testimony.

[139] Christian Rebuttal Testimony at 5.

[140] *Id.*

and 59.37 percent equity.[141] The Commission agrees with the Attorney General in that Atmos's common equity ratio is excessive compared to its peers, resulting in an increase in the cost of capital and base revenue requirement. However, the capital structure, including the equity component, is known and measurable. Therefore, the Commission accepts the capital structure, as filed in Atmos's rebuttal testimony and will take the excessive equity ratio into consideration in setting the return on equity. Further, the Commission cautions Atmos about the high common equity ratio and finds that in future rate filings, the Commission may make adjustments to Atmos's common equity ratio, for ratemaking purposes, to be comparable to its peers.

Return on Equity

In its application, Atmos developed its proposed ROE using the Discounted Cash Flow (DCF) method, two Risk Premium (RP) methods, and two Capital Asset Pricing Model (CAPM) methods.[142] Deriving it from the cost of capital evaluations, Atmos proposes an ROE, adjusted for flotation costs, of 10.4 percent based on the average of the model outputs.[143] Atmos maintains that an ROE of 10.4 percent is conservative because the financial risk of the comparable companies used in the models is less than the financial risk associated with the lower equity ratio used in Atmos's ratemaking capital structure.[144] The table below summarizes Atmos's ROE estimates:[145]

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[141] *Id* at 6. Value Line excludes short-term debt. The calculation for Atmos also excludes short-term debt and is based upon Atmos's filed rebuttal capital structure.

[142] Direct Testimony of James H. Vander Weide, Ph.D. (Vander Weide Testimony).

[143] *Id.* at 4.

[144] *Id.*

[145] *Id.* at 46.

STUDY	ROE
DCF	9.2%
Ex Ante Risk Premium	10.9%
Ex Post Risk Premium	10.2%
CAPM – Historical	9.7%
CAPM - DCF Based	11.7%
Average	10.4%

The Attorney General did not provide a specific ROE witness, but analyzed Atmos's DCF model and Regulatory Research Associates' Inc. (RRA) averages of authorized gas ROE's.[146] The Attorney General only focused on the DCF model, stating that the Commission has historically relied on the DCF methodology for ROE analysis.[147] The Attorney General eliminated all floatation costs, noting that historically the Commission has rejected the use of flotation costs.[148] Using Atmos's DCF model, the Attorney General states that the average of the proxy group, without flotation costs, is 9.1 percent.[149] The Attorney General also provided the RRA's average authorized ROEs for general gas rate cases for 2017 and up to September 2018, of 9.72 and 9.62 percent, respectively.[150] The Attorney General initially recommended an ROE of 9.7 percent,

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[146] Kollen Testimony at 45–48.

[147] Kollen Testimony at 46.

[148] *Id.*

[149] *Id.*

[150] *Id.* at 47.

noting that is in excess of the DCF model, without flotation costs, but is consistent with recently authorized returns for other gas utilities.[151]

In response to the Attorney General, Atmos maintains that a 10.4 percent ROE represents the average cost of equity when applying various cost-of-equity methods to the proxy group, and notes that frequently various methods are used to estimate the cost of equity.[152] Atmos criticizes the Attorney General's witness for not providing any evidence to support his recommendation of a 9.7 percent ROE and notes that this is the same ROE awarded in Atmos's previous rate case, Case No. 2017-00349.[153] Atmos then criticizes the Commission for not explaining precisely how it arrived at the awarded 9.7 percent ROE in Case No. 2017-00349, and further points out disagreements it has with the Commission's conclusions concerning the ROE from the 2017 case.[154] Specifically, Atmos disagrees with the Commission's ruling regarding the exclusion of flotation costs, claiming that the Commission is not allowing Atmos to recover its full cost of stock issuances.[155] Atmos also speaks to the Commission's exclusion of South Jersey Industries as a proxy company for the DCF analysis and argues that the cost of equity recommendation should depend on multiple cost equity models, not a single model such as the DCF model.[156] In addition, Atmos offers its differing opinion regarding the

[151] *Id.*

[152] Rebuttal Testimony of James H. Vander Weide (Vander Weide Rebuttal Testimony) at 1–3.

[153] *Id* at 3–10.

[154] *Id.* at 4.

[155] *Id.* at 4–5.

[156] *Id.* at 6.

consideration of other authorized ROEs in the gas utility industry and alludes to this data being stale.[157] Finally, Atmos mentions Duke Energy Kentucky's ROE award of 9.725 percent.[158]

In the rebuttal testimony, Atmos notes that the Commission referred to the average earned ROE in the natural gas utility industry in its Final Order in Case No. 2017-00349, and that the Commission encouraged Atmos to look not only at other regulatory decisions but also at capital markets and expected returns from similar risk utilities.[159] Atmos presents similar information, updated for 2018. This data, based upon the earned and expected ROEs from Value Line for natural gas utilities, reports the average to be 10.4 percent for 2018 and forecasts 10.6 percent for 2022–2024.[160] Atmos states that these data further support its position that the Attorney General's recommended ROE is too low and that Atmos's proposed ROE of 10.4 percent is reasonable.[161] Atmos also provides updated cost-of-equity studies supporting a 10.5 percent ROE.[162]

In his post-hearing brief, the Attorney General addresses the 9.7 percent ROE awarded in Case No. 2017-00349, and emphasizes that the 9.7 percent ROE was for a

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[157] *Id.* at 7–10.

[158] This awarded ROE was for Duke Energy Kentucky's electric division. The Commission follows the common industry belief that the risk associated with electric utilities is greater than that of natural gas utilities.

[159] Vander Weide Rebuttal Testimony at 9.

[160] *Id.* at 8.

[161] *Id.*

[162] *Id.* at 9–10.

test-year ending just recently, on March 31, 2019.[163] The Attorney General continues by stating that since Atmos's rates were set 11 months ago long-term interest rates have decreased.[164] The Attorney General reiterates that the Commission has never allowed for a flotation adjustment and accuses Atmos of further inflating its models by using a quarterly calculation in the DCF model and using forecasted interest rates based on the assumption that they will increase.[165]

The Attorney General continues by stating that the evidence of record actually supports a decrease in Atmos's current ROE.[166] The Attorney General cites to the fact that Atmos's own models have decreased 20 basis points from a proposed 10.6 percent ROE in Case No. 2017-00349 to 10.4 percent in the pending case.[167] The Attorney General mentions that Atmos intends to file annual rate cases based upon forecasted test-years that will allow for recovery of all forecasted capital and operating costs, and thus reduce risk associated with the recovery of these costs.[168] The Attorney General uses Atmos's updated DCF analysis and removes the size premium and flotation costs for a model result of 9.44 percent, which he says is also inflated due to the use of a quarterly versus an annual DCF model.[169] The Attorney General recommends the

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[163] Attorney General's Brief at 27.

[164] *Id.* at 28.

[165] *Id.*

[166] *Id.* at 29.

[167] *Id.*

[168] *Id.*

[169] *Id.* at 30.

Commission reject Atmos's CAPM analysis, citing the fact that Atmos's expert witness has rejected his own CAPM analyses in past cases due to the beta coefficient being below one (0.69 in this case), and reject the Risk Premium analysis as the Attorney General is unaware of the Commission ever explicitly approving that method.[170] The Attorney General states that, for all these reasons, he supports a decrease in the current ROE and revises his proposed ROE recommendation to 9.45 percent.[171]

In the post-hearing brief, Atmos reiterates its position that the Attorney General's witness presents no supporting study or analysis, has no expert experience on the subject of ROE, and merely concludes that the ROE should just be a predetermined ROE from a previous case.[172] Atmos contends that the proposed ROE of 10.4 percent is supported by standard cost–of-equity estimation models such as the DCF, RP, and CAPM models.[173] Atmos further supports its assertion that the proposed ROE is conservative because it allows for Atmos an opportunity to recover prudently incurred operating expenses and earn a fair rate of return on its incurred investment.[174] Atmos notes that investors' perception of risk is strongly influenced by regulation and investors are aware when a regulator does not allow an opportunity to recover costs in a timely manner and earn a fair and reasonable return on investment.[175]

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[170] *Id.*

[171] *Id.* at 31.

[172] Atmos's Brief at 37.

[173] *Id.* at 37.

[174] *Id*

[175] *Id.* at 39.

For the DCF model, Atmos employed a quarterly model.[176] Atmos believes a quarterly model is more correct than the annual DCF model since all the proxy group companies pay quarterly dividends.[177] The annual DCF model is more applicable for annual dividend payments. However, Atmos does note that the annual model produces similar results.[178] Atmos offers further support for the filed RP and CAPM models. Regarding flotation costs, Atmos states that regardless of the Commission's prior regulatory policy of disregarding these costs, they are appropriate and based on a recognized economic proposition and that disregarding these costs will not allow Atmos to earn a fair ROE.[179] Atmos further avers that if flotation costs are removed, a company has no incentive to invest in new capital projects.[180]

Regarding interest rates, Atmos continues to support its opinion that interest rates will rise as the Federal Reserve System (FED) battles inflation and that a forecasted interest rate allows for a fair return.[181] Atmos contends that the use of current interest rates is inconsistent with the fair rate of return standard.[182] Atmos states that even with annual rate cases, forecasted long-term interest rates support its equity models because at each point in time the cost of equity reflects an investor's expected return over the long-

[176] *Id.* at 41.

[177] *Id.*

[178] Vander Weide Testimony at 20.

[179] Atmos's Brief at 42–43.

[180] Id. at 43.

[181] *Id.* at 44.

[182] *Id.*

term life of the investment, and current long-term interest rates may not reflect investors' estimates of the expected return over the life of the investment.[183] Atmos reiterates that a fair ROE is forward-looking, provides an opportunity to earn a return over the time rates are in effect, and is on par with the returns investors expect on comparable investments.[184] Atmos concludes that although the updated equity models estimate a 10.5 percent ROE, the utility believes an ROE of 10.4 percent will be consistent with current investor expectations, even with the intention to file annual rate cases and the potential reduction of regulatory lag.[185]

The Commission has not altered its opinion regarding flotation costs and agrees with the Attorney General that flotation costs should be excluded from the ROE analysis. Atmos argues that if flotation costs are excluded then the issuing company will not be able to earn a fair ROE and that removal allows no incentive to invest in capital projects. Such an argument is unfounded and unsupported. This Commission has never allowed for the inclusion of flotation costs,[186] yet Atmos' PRP and Non-PRP investment has increased 125 percent since 2013.[187] Furthermore, as reported by Value Line, Atmos' average ROE between 2015 and 2018 is 9.78 percent.[188] Clearly, Atmos is earning a

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[183] *Id.*

[184] *Id.* at 45.

[185] *Id.* at 46.

[186] Attorney General's Brief at 28.

[187] Kollen Testimony at 21. Direct Investment in 2013 was $35.5 million and $79.8 million in 2018.

[188] The Value Line Investment survey, Issue 3, March 1, 2019.

return despite the past exclusions of flotation costs.[189] The Commission also rejects Atmos's proposed size premium adjustments.

Atmos testified that interest rates would increase due to the FED's response to inflation.[190] Inflation has remained at or below the FED's target level of 2 percent since 2012.[191] There was some concern in 2017 and 2018 about inflation rising, with a corresponding response by the FED.[192] However, inflation worries have eased, as the current level of 1.9 percent inflation rate for the 12 months ending March 2019 indicates, and so have interest rates.[193] At the recent Federal Open Market Committee meeting, the FED held interest rates steady and indicated that no more increases would be coming this year, revising policy projections made just three months earlier.[194] This change supports the Commission's view that forecasted interest rates are unpredictable and not guaranteed, and that current interest rates are the best measure as they are unbiased and efficient. Atmos contends that there is an upward movement in interest rates and even disagrees with the FED's announcement of no new increases, relying instead on Value Line estimates. These differing forecasts support the proposition that forecasts vary and are uncertain.[195] For further support of the uncertainty in forecasted rates, one

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[189] Atmos' response to Staff's Second Request, Item 55; Vander Weide Rebuttal Testimony at 8; Atmos's Response to the Attorney General's First Request for Information, Item 26.

[190] Atmos's Brief at 44.

[191] *See* https://www.usinflationcalculator.com/inflation/current-inflation-rates/

[192] *See* https://www.federalreserve.gov/monetarypolicy/openmarket.htm

[193] *See* https://www.usinflationcalculator.com/inflation/current-inflation-rates/

[194] *See* https://www.federalreserve.gov/monetarypolicy/fomcpresconf20190320.htm

[195] Atmos's response to Staff's First Post-Hearing Request, Item 17.

can look at the 10-year, 20-year, and 30-year Treasury Yields since the final Order in Case No. 2017-00349. These Treasury yields have actually decreased.[196] Atmos's expert witness on ROE, Mr. Vander Weide, stated during the formal hearing that although the interest rates have remained relatively flat since the last rate case, he does not expect this trend to continue.[197] Mr. Vander Weide made the same statement in Case No. 2017-00349, testifying that future interest rates will be higher than current interest rates, when in fact this has not occurred.[198] Mr. Vander Weide stated that a forward-looking return is based on the latest available information in the capital markets, but the Commission believes that in this current economic and low-interest-rate environment, forecasted interest rates are not reliable and the best estimate is the most current interest rate.

For 2017, the average authorized ROE in the natural gas utility industry as reported in the RRA's quarterly review was 9.72 percent and, absent an outlier, 9.63 percent.[199] For general rate cases decided from January 2018 through September 2018, the average authorized natural gas return was 9.62 percent.[200] Atmos submitted Value Line's average earned and expected returns on equity for natural gas utilities for 2018, which was 10.4 percent. This average included a 17.1 percent ROE for New Jersey Resources. When Dr. Vander Weide was asked at the formal hearing whether he believed the 17.1 percent ROE was an outlier and if he believed this type of return to be sustainable, he stated that

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[196] Atmos's response to Staff's Fifth Request for Information, Item 9.

[197] April 2, 2019 Hearing Transcript at 9:14:09.

[198] Case No. 2017-00349, Direct Testimony of James H. Vander Weide Ph.D. at 31.

[199] Case No. 2017-00349, Atmos (Ky. PSC May 3, 2018), Order at 29.

[200] Kollen Testimony at 47; In the April 11, 2019 edition of the RRA Regulatory Focus, the average ROE for natural gas utilities was 9.55 percent for the first quarter of 2019 and 9.59 percent for 2018.

he would not look at the 2018 numbers but at the 2022-2024 estimates of 10.6 percent as a more reliable estimate of investor expectation.[201] This Commission finds that New Jersey Resources' ROE is an outlier and not sustainable.[202] Removing New Jersey Resources results in an average 2018 earnings of 9.61 percent.

Removing the flotation and size premium adjustments[203] and using the current interest rates, Atmos's models produce the following results:

STUDY	ROE
DCF[204]	9.1%
Ex Ante Risk Premium[205]	9.7%
Ex Post Risk Premium[206]	8.8%
CAPM – Historical[207]	9.1%
CAPM - DCF Based[208]	11.6%
Average	9.66%

[201] April 2, 2019 Hearing Transcript at 9:29:10.

[202] The March 2019 Value Line indicated that the equity's priced has receded about 6.5 percent since November supporting the unsustainability of such a high ROE. The reported ROE as of May 1, 2018 was 13.78 percent (*see* https://finance.yahoo.com/quote/NJR/key-statistics?p=NJR).

[203] This Commission has never allowed for size premium adjustments nor has it ever been explicitly approved or cited in Orders from other States which regulate Atmos. *See* Atmos's response to Staff's First Post-Hearing Request, Item 20.

[204] Atmos's response to Staff's Second Request, Item 54.

[205] *Id.*, Item 50; Vander Weide Testimony at 32. Adding the current average yield on A-rated bonds of 4.45 percent of the risk premium of 5.2 percent.

[206] *Id.*, Item 50; Vander Weide Testimony at 36. Adding the current average yield on A-rated bonds of 4.45 percent to the midpoint of the risk premium of 4.35.

[207] *Id.*, Item 56.

[208] *Id.*, Item 57.

The Commission believes that if Atmos files annual rate cases, as it has indicated it will do, regulatory lag will be reduced. Dr. Vander Weide testified that annual rate cases can reduce regulatory lag, but this is dependent upon whether historical or forecasted data is used for expenses, rate base, and capital expenditures, as historical data increases regulatory lag. He further stated that using a forward-looking test year allows the utility to actually earn its required rate of return, but if the data is historical then the utility cannot.[209] Atmos is using a forecasted test year, which, coupled with annual rate cases, allows Atmos to mitigate the risk inherent to the regulatory process. In addition, trackers such as the PRP, which is being maintained with forecasted spending levels, allow for more timely capital cost recovery, to the benefit of Atmos and its stockholders. In evaluating Atmos's ROE, the Commission considered this reduction in regulatory lag and the filing of frequent rate adjustment applications based upon forecasted test periods.[210] Additionally, Atmos's own model results, as adjusted in the table above,[211] of 9.66, the current proxy company yields of 9.61 percent, and the average ROE awarded through September 2018 of 9.62 percent support an awarded ROE that is lower than Atmos's proposed 10.4 percent. The Commission recognizes the expected ROE of 10.6 percent for natural gas utilities, but with annual rate cases, Atmos will have filed two more cases by 2022 and the data in these future cases will more accurately reflect the 2022 – 2024 period. The Commission also recognizes Atmos's current level of equity and the

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[209] April 2, 2019 Hearing Transcript at 9:02:26.

[210] *See*, Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010).

[211] Adjustments include removal of flotation costs and size premium adjustments and reflects the most current interest rates filed in the record.

decrease in risk associated with an increase in the customer charge, as discussed below. This customer charge increase will remove much of the reliance upon weather for revenue, lowering Atmos' risk of revenue exposure. Therefore, the Commission finds that an ROE of 9.65 provides Atmos with a fair and reasonable rate of return. In this decision, the Commission considers analysts' projections regarding future growth, as used in the DCF analysis. But just as important, the Commission must give consideration to the current economic environment, which is showing signs of slower growth and a dampened momentum. The Commission would also remind Atmos that our role is not to provide modeling, but to evaluate the parties' models and the current economy, and to arrive at an opinion regarding the evidence while balancing the needs of both utilities and consumers when determining rates that are fair, just, and reasonable. The effect of this adjustment is a reduction in the revenue requirement of $2,928,240.

Rate-of-Return Summary

Applying the cost rates of 3.40 percent for short-term debt, 4.56 percent for long-term debt, and 9.65 for common equity to the proposed capital structure percentages consisting of 2.21 percent, 39.73 percent, and 58.06 percent, respectively, produces an overall cost of capital of 7.49 percent.

REVENUE REQUIREMENTS

Based upon Atmos's revised requested increase of $14,509,652 and recognizing downward adjustments of $14,771,421 found reasonable herein,[212] Atmos's revenue sufficiency is $261,769.

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[212] See Appendix A to this Order for a summary of adjustments.

PRICING ISSUES

Cost-of-Service Study

Atmos filed three fully allocated cost-of-service studies (COSS), as required by Case No. 2013-00148.[213] The Attorney General's testimony did not address Atmos's COSSs and did not include any alternate COSSs. Having reviewed the three COSSs, the Commission finds that the COSSs are acceptable to use as a guide in setting rates for Atmos. The Commission further finds that the directive from Case No.2013-00148 for Atmos to file multiple-methodology COSSs in future rate cases is no longer necessary. However, Atmos may file multiple studies, as Columbia Gas does, if it so chooses.[214]

Revenue Allocation

The process used by Atmos to forecast test period revenues is the same as prior rate case filings, which is normalized based on 20-year average heating degree-days. This method has been found to be reasonable and accepted without adjustment in past rate cases.

Atmos proposes to retain its current rate structure and general balance of fixed and variable cost recovery, which is supported by its filed COSS. While the results of its COSS show that the Residential and Non-Residential Interruptible Sales do not adequately contribute to its cost to serve, it chose to allocate a portion of the requested revenue increase to each customer class.[215] Atmos proposes to increase the customer

[213] Case No. 2013-00148, Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications (Ky. PSC May 22, 2014). Atmos filed a Customer/Demand study, a Demand/Commodity study, and a Demand-Only study.

[214] *See* Case No. 2016-00162, *Application of Columbia Gas of Kentucky, Inc. for an Increase in Base Rates* (Ky. PSC Jan. 22, 2016).

[215] Martin Testimony at 13.

charges of all classes, and allocate the remainder of each class's increase to volumetric rates.[216] The results illustrate that the Non-Residential Interruptible Sales Class contributes a minimal to negative return at present rates and that the proposed increase was significantly less than what was necessary to remove any subsidy. Atmos states that the class consists of only ten customers and the usage is significantly lower than the usage in other classes.[217] Atmos suggests a balanced view of class costs would be to combine this class with the much larger Interruptible Transportation class.[218] Atmos further notes the rate design dictates the same customer charge and distribution rates for the two Interruptible rate classes, so that any change to one would affect the other.[219] Atmos submits that as proposed, the revenue distribution is a reasonable movement toward reducing interclass subsidies and the residential class is not subsidizing any other class, including the Non-Residential Interruptible Sales Class.[220] As previously mentioned the Attorney General submitted no COSS and made no recommendation regarding revenue allocations.

The Commission agrees with Atmos's testimony regarding the Non-Residential Interruptible Sales Class and further agrees that currently the residential class is not subsidizing this or any other rate class. The Commission's allocation of the required

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[216] *Id.*

[217] Atmos's Brief at 49.

[218] *Id.*

[219] *Id.* at 50.

[220] *Id.* at 51.

revenue, as reflected in the rates found reasonable herein, and, as discussed below, will be applied to both the base monthly customer charges and the volumetric rates.

Rate Design

Atmos proposed no change in rate design, maintaining a monthly base customer charge and declining block volumetric rates for all rate schedules. It proposed to increase the G-1 Firm Sales Service base customer charge to $20.50 for residential customers and to $51.75 for non-residential customers. It also proposed to increase the base customer charge for G-2 Interruptible Sales Service and for T-4 and T-3 Firm and Interruptible Transportation Service customers to $435.00. Atmos proposed to increase volumetric rates for all customer classes.

As previously mentioned, the Attorney General made no recommendation with regard to rate design in direct testimony, nor did the Attorney General make any specific recommendations as to rates resulting from any decrease or increase in revenues approved by the Commission. The Attorney General did make a recommendation regarding rate design in his post-hearing brief. Here, the Attorney General contends that Atmos has not presented any evidence that the current residential customer charge needs to be increased.[221] The Attorney General notes that the Commission rejected the same proposed customer charge in its last rate case, stating the current charges were reasonable and should remain at their current levels for all customer classes.[222]

[221] Attorney General's Brief at 33.

[222] *Id.*

The proposed residential customer charge of $20.50 is supported by the filed COSS's and supports the Commission's movement towards a rate structure that is based upon the cost to serve each customer class. However, based upon the approved revenue requirement, this proposed residential customer charge increase, coupled with the decrease in the volumetric rate, places an overall increase on the average residential customer bill. In keeping with Atmos's proposed percent of revenue contribution from each volumetric block, a residential customer charge of $18.40 results in a revenue-neutral impact upon the average residential customer. However, the Commission believes that increasing the residential customer charge from $17.50 to $18.40 does not move the residential class close enough to the true cost to serve. The Commission finds that increasing the residential customer charge to $19.30 and decreasing the volumetric rate accordingly, so that the average bill impact is revenue neutral, results in rates that are fair, just, and reasonable. The Commission recognizes that the residential class is not paying its full cost of service. This rate design will further reduce the residential class subsidy and move the entire rate design closer to the cost to serve. Therefore, the Commission will approve a residential customer charge of $19.30. This increase in the residential customer charge decreases risk and revenue exposure associated with a decreased reliance on weather and this impact is reflected in the awarded ROE. The Commission further finds that the proposed customer charges for the remaining rate classes are within the range of reasonableness and will be approved.

TARIFF ISSUES

Pipeline Replacement Program

Atmos's compliance tariff containing the Commission's requirements in this Order should reflect its PRP tariff as approved prior to the Commission's final order revising the PRP provisions in Case No. 2017-00349.

Demand-Side Management Cost Recovery Mechanism

Atmos requests minor text changes to its DSM tariff related to the timing of the distribution charge adjustment. The Commission finds that these changes are reasonable and should be approved. The Commission also finds that, upon the implementation of new base rates, the DSM Lost Sales Adjustment component of Atmos's DSM cost-recovery mechanism should be reset to zero. Atmos's compliance tariff should reflect this revision to the DSM Cost Recovery Mechanism.

WNA Rider

Atmos is proposing to update the period used to weather normalize revenues for the WNA Rider. The Commission finds that this update is reasonable and should be approved.

MISCELLANEOUS ISSUES

Lobbying Activities

The Attorney General proposes that the Commission disallows for ratemaking purposes the entire salary of Mr. Martin, the Vice President of Rates and Regulatory Affairs for the Kentucky/Mid-States Division of Atmos.[223] The Attorney General asserts

[223] Attorney General's Brief at 13.

that Mr. Martin is listed on the March 26, 2019 Kentucky Registered Legislative Employers list as the in-state contact for Atmos Energy.[224] Mr. Martin admits that he does have some communication with Atmos's employed lobbyist, Mr. Raymond "Rusty" R. Ashcraft, and files periodic reports as required by the Legislative Ethics Commission.[225] However, the Attorney General contends that Mr. Martin has not defined how much of his time is spent on lobbying efforts on behalf of Atmos, communication with the legislature, or communication with Atmos's Governmental and Public Affairs Department in Dallas, Texas.[226] The Attorney General also argues that Mr. Martin declined to answer cross-examination questions at the formal hearing regarding certain accounting issues, such as Atmos's election of CWIP vs. AFUDC, as well as the calculation of its rate base and revenue requirement in the pending filing, but instead deferred those lines of questioning to another Atmos witness.[227] Due to these issues, the Attorney General recommends that the Commission disallow Mr. Martin's salary in its entirety.

Commission regulation 807 KAR 5:016 prohibits the inclusion of any expenditures for political advertising for ratemaking purposes. As defined in 807 KAR 5:016, Section 4(1)(a), political advertising is intended to influence "public opinion with respect to legislative, administrative, or electoral matters, or with respect to any controversial issue of public importance." The Commission has historically disallowed lobbying expenses from being included in base rates, including the exclusion of certain portions of

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[224] *Id.*; April 2, 2019 Hearing Transcript at 10:42:01–10:46:20.

[225] Attorney General's Brief at 13; Attorney General's Hearing Exhibit 15.

[226] *Id.*

[227] Attorney General's Brief at 14.

employee's salaries that were determined to be lobbying-related, as well as the corresponding portion of the employee taxes and benefits.

The Attorney General did not raise the lobbying issue until the formal hearing, and as such, the Commission finds that there is a lack of evidence in the record to grant the Attorney General's request to disallow Mr. Martin's salary in its entirety. At the formal hearing, Mr. Martin stated that he spends a minimal amount of time handling administrative issues relating to lobbying.[228] Nonetheless, the Commission will require Atmos to prospectively keep adequate records to delineate the time that Mr. Martin, or any Atmos employee, spends on lobbying efforts. The Commission puts Atmos on notice that these records need to be filed with its next base rate case, at which time a determination will be made if any adjustment to employee salaries, taxes, and benefits is needed to reflect lobbying-related activities.

Certificate of Public Convenience and Necessity (CPCN)

Atmos states that its process for determining whether to file an application with the Commission for a CPCN before beginning the construction of any plant, equipment, property, or facility, is to review each project and decide whether it falls within the scope of KRS 278.020 or 807 KAR 5:001(15)(3).[229] Kentucky statute requires that a utility must first acquire a CPCN prior to beginning construction of any plant, equipment, property, or

[228] April 2, 2019 Hearing Transcript at 10:42:01–10:46:20.

[229] Atmos's response to Commission Staff's Third Request for Information (Staff's Third Request), Item 3; April 2, 2019 Hearing Transcript at 11:34:00–11:41:00.

facility, except for certain service connections for electric-consuming facilities and ordinary extensions in the usual course of business.[230]

KRS 278.020 provides, in pertinent part, that:

> No person, partnership, public or private corporation, or combination thereof shall commence providing utility service to or for the public or begin the construction of any plant, equipment, property, or facility for furnishing to the public any of the services enumerated in KRS 278.010, except retail electric suppliers for service connections to electric-consuming facilities located within its certified territory and ordinary extensions of existing systems in the usual course of business . . . until that person has obtained from the Public Service Commission a certificate that public convenience and necessity require the service or construction.

807 KAR 5:001, Section 15(3), further provides:

> Extensions in the ordinary course of business. A certificate of public convenience and necessity shall not be required for extensions that do not create wasteful duplication of plant, equipment, property, or facilities, or conflict with the existing certificates or service of other utilities operating in the same area and under the jurisdiction of the commission that are in the general or contiguous area in which the utility renders service, and that do not involve sufficient capital outlay to materially affect the existing financial condition of the utility involved, or will not result in increased charges to its customers.

The Commission has interpreted this statute and regulation to mean that a CPCN is not necessary "for facilities that do not result in the wasteful duplication of utility plant, do not compete with the facilities of existing public utilities, and do not involve a sufficient capital outlay to materially affect the existing financial condition of the utility involved or to require an increase in utility rates."[231] The Commission has also frequently found, based

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[230] KRS 278.020.

[231] Case No. 2000-00481, *Application of Northern Kentucky Water District (A) For Authority to Issue Parity Revenue Bonds in the Approximate Amount of $16,545,000; and (B) A Certificate of Convenience and Necessity for the Construction of Water Main Facilities* (Ky. PSC Aug. 30, 2001), Order at 4.

on specific facts presented by a utility, that the construction of a proposed facility, other than an office building, is in the ordinary course of business and does not require a CPCN if the cost represents less than two percent of the utility's net utility plant, and will not require financing approval by the Commission.[232]

A review of the Commission's records shows Atmos has never filed an application under KRS 278.020 for a CPCN with the Commission to construct a plant, equipment, property, or a facility. The only CPCN request that Atmos has filed with the Commission has been under KRS 278.020(5) for authorization to bid on franchises.[233] In the pending case, Atmos maintains that none of the capital expenditure projects included in the test period would require the issuance of a CPCN. Atmos asserts that all of the projects are considered in the ordinary course of business, and they do not materially impact Atmos's financial condition based upon the 2 percent of net utility plant parameter applied by the Commission in other cases.[234]

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[232] *See, e.g.*, Case No. 2015-00284, *Application of East Kentucky Power Cooperative, Inc. for an Order Declaring the Expansion of the Bavarian Landfill Gas to Energy Project to be an Ordinary Extension of Existing Systems in the Usual Course of Business* (Ky. PSC Nov. 20, 2015); Case No. 2012-00269, *Tariff Filing of Warren County Water District to Establish the Rockfield School Sewer Capital Recovery Fee* (Ky. PSC Nov. 19, 2012); Case No. 2007-00058, *Application of Big Rivers Electric Corporation for Approval of an Interconnection Agreement with Kentucky Utilities Company* (Ky. PSC Apr. 16, 2007); Case No. 2002-00474, *Application of East Kentucky Power Cooperative, Inc. for an Order Declaring the Green Valley and Laurel Ridge Landfill Gas to Energy Projects to Be Ordinary Extensions of Existing Systems in the Usual Course of Business* (Ky. PSC Mar. 3, 2003); Case No. 98-508, *Application of Kentucky Turnpike Water District for a Declaration that a Certificate of Public Convenience and Necessity Is not Required or, in the Alternative, for the Issuance of Such a Certificate of Public Convenience and Necessity* (Ky. PSC Nov. 19, 1998); Case No. 92-028, *Application of Kenton County Water District No. 1 for Authority to Perform Maintenance at its Taylor Mill Treatment Plant by Replacing Filer Valves at a Total Cost of Approximately $700,000* (Ky. PSC Feb. 18, 1992); *See also* Case No. 2013-00365, *Application of Delta Natural Gas Company, Inc. for an Order Declaring that it is Authorized to Construct, Own and Operate a Compressed Natural Gas Station in Berea, Kentucky* (Ky. PSC Mar. 30, 2015).

[233] https://www.psc.ky.gov

[234] Atmos's response to Staff's Third Request, Item 27 (citing to Commission Staff Opinion 2017-005).

Atmos sets forth a net utility plant for the base period of $474,449,000, and a forecasted net utility plant of $564,564,000.[235] Based upon Atmos's reliance upon the 2 percent of net utility plant parameter, Atmos should have filed an application for a CPCN for any capital project that exceeded $9,488,980 in the base period and $11,291,280 in the forecasted period. When reviewing Atmos's capital expenditure projects in the pending case, and only analyzing whether Atmos should have filed an application for a CPCN assuming it was utilizing the 2 percent of net utility plant parameter, there are at least three non-PRP projects in which the total cost of each project greatly exceeds $9,488,980.[236]

Atmos has the responsibility to ensure that it follows the Commission's statutes and regulations, and that all statutory and regulatory approvals are properly obtained. Based upon the fact that Atmos has never filed an application for a CPCN with the Commission, except to bid on franchises, coupled with evidence of at least three capital expenditure projects in the pending case that arguably required a CPCN, it does not appear that Atmos has fulfilled this responsibility. In the future, when Atmos is analyzing whether it needs to file an application for a CPCN with the Commission, Atmos should, as a starting point, use the total cost of the construction of the facilities instead of solely fiscal or calendar year costs. Any construction of facilities that creates wasteful duplication, or conflicts with certificates granted to other utilities, or that will materially

[235] Application, Schedule K.

[236] Atmos's response to Commission Staff's Second Post-Hearing Request for Information, Item 1, Attachment 1. (2734 BG Center Line Phase 3, 2739. Hwy 53 to Waddy Line Ph 2, and 2609 ANR Bon Harbor).

affect the utility's financial condition, or that will result in increased charges to customers, is not in the ordinary course of business and does require a CPCN.

The Commission has the authority to assess penalties under KRS 278.990 for utilities that begin construction prior to obtaining a CPCN. Atmos is now on notice that a CPCN is needed for any future construction of facilities that are not in the ordinary course of business and that failure to obtain a CPCN prior to commencing construction may result in a show cause proceeding.[237]

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The rates set forth in Appendix B to this Order are the fair, just, and reasonable rates for Atmos to charge for service rendered on and after May 8, 2019.

2. The rate of return granted herein is fair, just, and reasonable, and will provide sufficient revenue for Atmos to meet its financial obligations with a reasonable amount remaining for equity growth.

3. The rates proposed by Atmos would produce revenue in excess of that found reasonable herein and should be denied.

4. Atmos's proposal to calculate depreciation rates based on the ELG methodology should be denied and its depreciation rates resulting from the ALG methodology, as discussed in the finding above, should be approved.

[237] In the event that Atmos is unsure of whether a particular project requires a CPCN, it should either request a Commission Staff Opinion or file an application for a declaratory order with the Commission.

5. Atmos should file a new depreciation study using the ALG methodology for Commission review by the earlier of five years from the date of this Order or the filing of its next general rate application.

6. Atmos should establish a regulatory liability in the amount of $3,676,784 for the remainder of the reduction in depreciation expense, the amortization of which will be addressed in Atmos's next base rate case

7. The PRP and associated tariffs should be modified as discussed herein.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Atmos are denied.

2. The rates in Appendix B to this Order are approved for service rendered by Atmos on and after May 8, 2019.

3. Atmos's proposal to calculate depreciation rates based on the ELG methodology is denied and its depreciation rates shall be calculated using the ALG methodology, as discussed in the finding above.

4. Atmos shall file a new depreciation study using the ALG procedure for Commission review by the earlier of five years from the date of this Order or the filing of its next general rate application.

5. Atmos shall establish a regulatory liability in the amount of $3,676,784 for the remainder of the reduction in depreciation expense, the amortization of which will be addressed in Atmos's next base rate case.

6. Within 20 days of the date of this Order, Atmos shall file with the Commission the accounting entries made on its books of account to effectuate the creation of the regulatory liability required by ordering paragraph 5.

7. Within 20 days of the date of this Order, Atmos shall file with the Commission, using the Commission's Electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and revisions approved herein, including those required for the PRP, and reflecting their effective date and that they were authorized by this Order.

8. Absent a request for rehearing, this case will be closed and removed from the Commission's docket upon expiration of the statutory period to request rehearing.

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By the Commission

ENTERED
MAY 07 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00281 DATED MAY 07 2019

Atmos Energy Corporation - Kentucky Division
Summary of Adjustments
KPSC Case No. 2018-00281
Test Year Ended March 31, 2020
$ Millions

			Adjustment Amount
Atmos Requested Increase			
Atmos Request Based on Original Filing			$ 14.456
Atmos Corrections to State Tax Rate, Depreciation, and Other			0.054
Atmos Adjusted Request			14.510
	Expense Amount	GRCF	
Effects of Operating Income Adjustments on Revenue Requirement			
Adjust Depreciation Expense to Reflect Half of Change in Depreciation Rates	(3.677)	1.00705	(3.703)
Remove Depreciation Expense Related to PRP After 9/30/19	(0.091)	1.00705	(0.091)
Remove Ad Valorem Taxes Related to PRP After 9/30/19	(0.034)	1.00705	(0.034)
Reduce Depreciation Expense Related to Reduction of Non-PRP Projected Plant Expenditures	(0.492)	1.00705	(0.495)
Reduce Ad Valorem Expense Related to Reduction of Non-PRP Projected Plant Expenditures	(0.193)	1.00705	(0.195)
Adjustment to Rate Case Expense Amortization	(0.049)	1.00705	(0.049)
	Net Adjustment	GRCF	
Effects of Rate Base Adjustments on Revenue Requirement			
Adjust Accumulated Depreciation and ADIT to Reflect Half of Change in Depreciation Rates	0.169	1.34184	0.227
Remove PRP Plant Additions After 9/30/19	(0.375)	1.34184	(0.503)
Reduce Projected Non-PRP Plant	(2.104)	1.34184	(2.824)
Remove CWIP from Rate Base	(2.932)	1.34184	(3.934)
Cash Working Capital Adjustment	(0.074)	1.34184	(0.099)
Adjustment to Rate Case Expense Regulatory Asset	(0.006)	1.34184	(0.008)
Effects of Rate of Return Adjustments on Revenue Requirement			
Include Effects of October 4, 2018 Debt Issue on Capital Structure and Debt Rate			0.011
Use Actual Debt Rate for March 2019 Refinance			(0.146)
Reflect Return on Equity of 9.65			(2.928)
Total Adjustments			(14.771)
Base Rate (Decrease)/Increase after Adjustments			$ (0.262)

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00281 DATED MAY 07 2019

The following rates and charges are prescribed for the customers served by Atmos Energy Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

RATE G-1
GENERAL FIRM SALES SERVICE

Base Charge

$19.30	per meter per month for residential service
$51.75	per meter per month for non-residential service

Distribution Charge

First	300	Mcf	$ 1.3855 per Mcf
Next	14, 700	Mcf	$ .9578 per Mcf
Over	15, 000	Mcf	$ .7651 per Mcf

RATE G-2
INTERRUPTIBLE SALES SERVICE

Base Charge

$435.00	per delivery point per month

Distribution Charge

First	15, 000	Mcf	$ .8327 per Mcf
Over	15, 000	Mcf	$ .6387 per Mcf

RATE T-3
INTERRUPTIBLE TRANSPORTATION SERVICE

Base Charge

$435.00 per delivery point per month

Distribution Charge for Interruptible Service

First	15, 000 Mcf	$ .8327 per Mcf
Over	15, 000 Mcf	$ .6387 per Mcf

RATE T-4
FIRM TRANSPORTATON SERVICE

Base Charge

$435.00 per delivery point per month

Distribution Charge for Firm Service

First	300 Mcf	$ 1.3855 per Mcf
Next	14, 700 Mcf	$ .9578 per Mcf
Over	15, 000 Mcf	$ .7651 per Mcf

Pipeline Replacement Program Rider Rates

	Monthly Customer Charge		Distribution Charge per Mcf
Rate G-1 (Residential)	$ 0.00		$0.0000
Rate G-1 (Non-Residential)	$ 0.00		$0.0000
Rate G-2	$ 0.00	1-15,000 Mcf	$0.0000
		Over 15,000 Mcf	$0.0000
Rate T-3	$ 0.00	1-15,000 Mcf	$0.0000
		Over 15,000 Mcf	$0.0000

Rate T-4	$ 0.00	1-300 Mcf	$0.0000
		301-15,000 Mcf	$0.0000
		Over 15,000 Mcf	$0.0000

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Attorney at Law
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Wilson, Hutchinson & Littlepage
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Owensboro, KENTUCKY 42301

LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NUMBER U-35951

ATMOS ENERGY CORPORATION, EX PARTE

Docket No. U-35951, In re: Test Year 2020 Rate Stabilization Clause Filing for Louisiana Rate Division.

(Decided at the July 14, 2021 Business and Executive Session.)

ORDER

OVERVIEW

This Commission, having reviewed and considered the Joint Report and Draft Order on Staff's Report and Recommendation ("Joint Report") submitted by the Louisiana Public Service Commission ("LPSC") Staff and Atmos Energy Corporation, consolidated Louisiana Division, ("Atmos") finds said Joint Report to be acceptable and in accordance with the provisions of Atmos' Rate Stabilization Clause ("RSC") authorized in LPSC Order No. U-35535. A copy of the Joint Report, filed into the record on July 2, 2021, is attached hereto as Attachment A.

The Joint Report indicated that Atmos will not implement a rate increase for the consolidated Louisiana Division.

JURISDICTION

The Commission exercises jurisdiction over public utilities in Louisiana pursuant to Article IV, Section 21(B) of the Louisiana Constitution, which states:

> The commission shall regulate all common carriers and public utilities and have such other regulatory authority as provided by law. It shall adopt and enforce reasonable rules, regulations and procedures necessary for the discharge of its duties, and shall have other powers and perform other duties as provided by law.

COMMISSION CONSIDERATION

This matter was considered at the Commission July 14, 2021 Business and Executive Session. On motion of Vice Chairman Skrmetta, seconded by Commissioner Campbell and unanimously adopted, the Commission voted to accept the Joint Report and Draft Order filed into the record on July 2, 2021.

THEREFORE IT IS ORDERED:

That the Joint Report and Draft Order submitted by Staff and Atmos is accepted by this Commission and that Atmos will not implement a rate increase for the consolidated Louisiana Division.

This order is effective immediately.

BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA
August 10, 2021

/S/ CRAIG GREENE
DISTRICT II
CHAIRMAN CRAIG GREENE

/S/ ERIC F. SKRMETTA
DISTRICT I
VICE CHAIRMAN ERIC F. SKRMETTA

/S/ FOSTER L. CAMPBELL
DISTRICT V
COMMISSIONER FOSTER L. CAMPBELL

/S/ LAMBERT C. BOISSIERE, III
DISTRICT III
COMMISSIONER LAMBERT C. BOISSIERE, III

/S/ MIKE FRANCIS
DISTRICT IV
COMMISSIONER MIKE FRANCIS

BRANDON M. FREY
SECRETARY

Louisiana Public Service Commission

POST OFFICE BOX 91154
BATON ROUGE, LOUISIANA 70821-9154
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July 2, 2021

VIA HAND DELIVERY
Ms. Terri Bordelon
Louisiana Public Service Commission
Records and Recordings
602 N. Fifth St.
Galvez Bldg. 12th Floor
Baton Rouge, LA 70802

Re: LPSC Docket No. U-35951, Atmos Energy Corporation, ex parte. 2020 Rate Stabilization Clause filing for Consolidated Louisiana Division.

Dear Ms. Bordelon,

Enclosed for filing is a Joint Report and Draft Order in the above-referenced docket for Commission consideration at its July 14, 2021 Business and Executive Session. Please do not hesitate to contact me if you have any questions concerning this filing.

Sincerely,

Justin Bello
Staff Attorney

Encl.
cc: Service List

LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO. U-35951

ATMOS ENERGY CORPORATION, EX PARTE

2020 Rate Stabilization Clause filing for Consolidated Louisiana Division.

JOINT REPORT AND DRAFT ORDER ON STAFF'S REPORT AND RECOMMENDATION

The Louisiana Public Service Commission Staff ("Staff") and Atmos Energy Corporation, consolidated Louisiana Division, ("Atmos" or the "Company") respectfully submit this Joint Report on *Staff's Report and Recommendation* ("Staff's Report").[1] Staff and Atmos respectfully submit this Joint Report to advise the Louisiana Public Service Commission ("LPSC" or the "Commission") of the resolution of all matters associated with the Company's 2020 Rate Stabilization Clause ("RSC") filing.

In the 2020 RSC Filing, Atmos reported that the Louisiana Division required a revenue increase of $25,178,958 prior to the Company's proposed amortization of Excess Accumulated Deferred Income Taxes ("EDIT") of ($10,942,561). The Company's proposed amortization of EDIT of ($10,942,561) reduced the gross revenue increase of $25,178,958 to a requested net revenue increase of $14,236,397.

Staff's Report was filed on June 15, 2021, wherein it recommended the following adjustments to the Company's RSC filing: (1) to reduce the amount of current income taxes by $814,579 and (2) to increase the amortization of protected and unprotected EDIT to $24,364,379, thereby eliminating the need for the increase in revenues as presented in the 2020 RSC filing by Atmos.

[1] A copy of Staff's Report is attached hereto as Exhibit A.

Atmos reviewed Staff's Report, and proposed the following modifications: (1) to remove Staff's recommended adjustment reduction to the amount of current income taxes and (2) to adjust the EDIT amortization to offset the aggregate rate increase resulting from the 2020 RSC model.[2] Staff subsequently agreed to Atmos' proposed modification.

Therefore, as there are no unresolved issues in this proceeding, Atmos and Staff request that the Commission adopt the attached draft order accepting this Joint Report at its July 14, 2021 Business and Executive Session.

BACKGROUND

Effective January 1, 2019, Atmos' Louisiana Division was restructured to consolidate its two rate divisions which have previously served Atmos customers throughout Louisiana: Trans Louisiana Gas Company ("TLA") and Louisiana Gas Service Company ("LGS"). Prior to this consolidation, the Commission used an RSC since 2006 to annually review the earnings of TLA and LGS separately. Following the consolidation, Atmos' RSC filing is now submitted on behalf of the consolidated Louisiana Division rather than the separate RSC filings of TLA and LGS.

In Docket No. U-35535, the Commission adopted the terms and conditions for Atmos' consolidated Louisiana Division RSC. Specifically, the Commission authorized Atmos to earn an overall Rate of Return ("ROR") on Rate Base of 7.30%. In compliance with the requirements of LPSC Order No. U-35535, Atmos submitted the RSC filing for the twelve months ending December 31, 2020, for the consolidated Louisiana Division on March 31, 2021.

In the 2020 RSC Filing, Atmos reported that the Louisiana Division required a revenue increase of $25,178,958 prior to the Company's proposed amortization of Excess Accumulated Deferred Income Taxes ("EDIT") of ($10,942,561). The Company's proposed amortization of EDIT of ($10,942,561) would reduce the gross revenue increase of $25,178,958 to a net revenue increase of $14,236,397. The amortization of the EDIT stems from the enactment of the Tax Cuts Job Act ("TCJA") on December 22, 2017 and the Commission's Order issued as a result of the passage of the TCJA.

[2] A letter from Atmos detailing proposed modifications was filed into the record of this matter on June 28, 2021, and is attached hereto as Exhibit B.

STAFF'S REPORT & RECOMMENDATION

Staff reviewed the documentation provided in support of the 2020 Test Year RSC Filing submitted by the consolidated Louisiana Division, as well as responses to discovery seeking further information regarding operations and financial results. As a result of this review, Staff recommended two adjustments to the 2020 RSC filing.

Current Income Tax Expense

The Atmos consolidated capital structure at year-end has been used as a proxy for the capital structure of the Louisiana rate divisions for the purpose of the annual RSC filings. The debt ratio of the Atmos consolidated capital structure – or the percentage of the rate base financed by debt – was 41.64% at year-end 2020 while the equity ratio was 58.36%. The current income tax liability calculated by Atmos for the purposes of the Louisiana Division 2020 RSC filing is based upon the Atmos consolidated capital structure that includes the equity ratio of 58.36%. The use of the actual equity ratio of 58.36% in the determination of the 2020 test year income tax liability results in income taxes of $17,641,145.

In prior Annual Reports that evaluated the RSC filings of Atmos, Staff has expressed its concerns with the use of an equity ratio that it believes is excessive and leads to higher than necessary costs to be recovered from the Company's ratepayers. Therefore, Staff recommended that a debt ratio of 48% and an equity ratio of 52% be used for the purpose of determining the 2020 test year income taxes. Based upon Staff's recommendation to adopt a 52% equity ratio in the calculation of the 2020 test year income taxes, the amount of income tax to be included as a Cost of Service item would be $16,826,566, or a reduction of $814,579 from the amount of income tax calculated by Atmos of $17,641,145.

Amortization of Unprotected EDIT

In the 2020 RSC filing, Atmos proposed a five-year amortization period to pass back the remaining balance of unprotected EDIT of $54,828,002. As proposed by the Company, the annual amortization amount for the pass back of the balance of the unprotected EDIT is $10,965,600.

The requirements of the Commission's General Order 2-7-2019 (the TCJA Order) require that the balance of unprotected EDIT be flowed through to customers over twenty-four (24) months, or over such other period of time approved by the Commission upon a request by the utility and a demonstration that some alternative amortization period is also just and reasonable. Staff believes that the Company's proposed five-year, straight-line amortization schedule to pass back the balance of unprotected EDIT should be modified in order to more appropriately benefit the customers of Atmos while still balancing the interests of the Company.

Staff recommends that the Commission approve a period of three (3) years for the amortization of the remaining balance of the Company's unprotected EDIT. In addition, Staff does not recommend a straight-line dollar amortization of the balance of the unprotected EDIT. Instead, the determination of the annual amortization amount should be contingent upon the magnitude of the adjustment to increase revenues based upon the Staff-adjusted test year results. The same methodology would drive the Company's amortization of protected and unprotected EDIT that is part of the 2021 RSC Filing. Any remaining balance of unprotected EDIT would be completely passed back to the customers of Atmos as part of the 2022 RSC Filing.

CONCLUSION

As stated above, Atmos reviewed Staff's Report, and proposed the following modifications: (1) to remove Staff's recommended adjustment reduction to the amount of current income taxes and (2) to adjust the EDIT amortization to offset the aggregate rate increase resulting from the 2020 RSC model. Staff agreed to Atmos' proposed modification.[3]

[3] Staff notes that its agreement to remove its recommended adjustment reduction to the amount of current income taxes does not constitute approval or assent to the equity ratio as presented in Atmos' RSC filing. Further, Staff reserves its right to oppose Atmos' position regarding its equity ratio in any future proceeding.

WHEREFORE, as there are no unresolved issues, Staff and Atmos respectfully request that the Commission issue an Order accepting this Joint Report. A proposed Order is attached hereto as Exhibit C.

Respectfully Submitted,

Justin Bello (#35039)
P.O. Box 91154
Baton Rouge, LA 70821
Telephone: (225) 219-9411
justin.bello@la.gov
Counsel for LPSC Staff

-and-

DocuSigned by:
Don Erickson
F0B32F6CE1B14CE...

Don Erickson
VP, Rates and Regulatory Affairs
Atmos Energy Corporation
450 Laurel Street, Suite 2100
Baton Rouge, LA 70801
Telephone: (225) 376-4605
don.erickson@atmosenergy.com

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing has been served upon the service list in Docket U-35951 via electronic mail on this 2nd day of July, 2021.

Justin Bello

Louisiana Public Service Commission

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BATON ROUGE, LOUISIANA 70821-9154
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June 15, 2021

VIA HAND DELIVERY
Ms. Terri Bordelon
Louisiana Public Service Commission
Records and Recordings
602 N. Fifth St.
Galvez Bldg. 12th Floor
Baton Rouge, LA 70802

Re: LPSC Docket No. U-35951, Atmos Energy Corporation, ex parte. 2020 Rate Stabilization Clause filing for Consolidated Louisiana Division.

Dear Ms. Bordelon,

Enclosed for filing is Staff's Report and Recommendation in the above-referenced docket. Please do not hesitate to contact me if you have any questions concerning this filing.

Sincerely,

Justin Bello
Staff Attorney

Encl.
cc: Service List

EXHIBIT
A

LOUISIANA PUBLIC SERVICE COMMISSION
DOCKET NO. U-35951

ATMOS ENERGY CORPORATION, EX PARTE

2020 Rate Stabilization Clause filing for Consolidated Louisiana Division.

Staff Report and Recommendation

Summary

Atmos Energy Corporation ("Atmos" or "the Company") is a corporation organized under the laws of the State of Texas and the Commonwealth of Virginia with its principal place of business located in Dallas, Texas. The Louisiana Division of Atmos serves as a gas local distribution company ("LDC") and public utility that has been authorized by the Louisiana Public Service Commission ("LPSC" or "the Commission") to provide natural gas utility service in the State of Louisiana. The Louisiana Division of Atmos provides natural gas service in forty-nine parishes throughout Louisiana and serves over 368 thousand meters.

Effective January 1, 2019, the Louisiana Division was restructured to consolidate the two rate divisions which have previously served Atmos customers throughout Louisiana: Trans Louisiana Gas Company ("TLA") and Louisiana Gas Service Company ("LGS").[1] The Commission approved the request of Atmos to consolidate the two Louisiana rate divisions subject to the terms of the Stipulation reached between the Commission Staff and the Company.[2] From the regulatory perspective of earnings oversight, one important outcome of the Commission-authorized consolidation is the requirement that the annual Rate Stabilization Clause ("RSC") filings of Atmos be developed and submitted on behalf of the consolidated Louisiana Division rather than the separate RSC filings that TLA and LGS had submitted each year prior to the

[1] *See* LPSC Docket No. U-35122: Application of Atmos Energy Corporation Requesting Consolidation of Atmos Energy Corporation's Louisiana Rate Divisions, Trans Louisiana Gas and Louisiana Gas Service and Related Amendments to Rate Schedules and Tariffs (February 15, 2019).

[2] *See* LPSC Order No. U-35122, dated January 9, 2020. Staff notes that at the April 29, 2020 Business and Executive Session, the Commission took this matter up for rehearing and modified the rate structures for certain customers to be phased in over a five-year period.

consolidation. Prior to this consolidation, the Commission had been using an RSC since 2006 to annually review the earnings of TLA and LGS.

In the review of the Company's Application to consolidate the two Louisiana rate divisions in Docket No. U-35122, Staff raised several issues that were eventually deemed to be better addressed in a separate proceeding. The Commission subsequently authorized a separate docket, Docket No. U-35535, be opened to evaluate the terms and conditions of the Atmos RSC. Docket No. U-35535 provided Staff and Atmos the opportunity to fully evaluate the terms and conditions under which the Commission would have oversight of the earnings of the Company. After a thorough evaluation of the RSC terms and conditions, Staff and Atmos reached an Uncontested Joint Stipulated Settlement which the Commission unanimously approved at its Business and Executive Session on March 17, 2021.

In compliance with the requirements of LPSC Order No. U-35535, Atmos submitted the RSC filing for the twelve months ending December 31, 2020, for the consolidated Louisiana Division on March 31, 2021 ("2020 RSC Filing"). The 2020 RSC Filing was published in the Commission's Official Bulletin No. 1243, dated April 16, 2021, for a twenty-five day intervention period. The intervention period elapsed without any opposition or protest filed.

The terms of the current RSC as approved by the Commission in Docket No. U-35535 authorize Atmos to earn an overall Rate of Return ("ROR") on Rate Base of 7.30%. In the 2020 RSC Filing, Atmos reported that the Louisiana Division required a revenue increase of \$25,178,958 prior to the Company's proposed amortization of Excess Accumulated Deferred Income Taxes ("EDIT") of (\$10,942,561). The Company's proposed amortization of EDIT of (\$10,942,561) reduces the gross revenue increase of \$25,178,958 to a net revenue increase of \$14,236,397. The amortization of the EDIT stems from the enactment of the Tax Cuts Job Act ("TCJA") on December 22, 2017 and the Commission's Order issued as a result of the passage of the TCJA.

Staff thoroughly reviewed the 2020 RSC Filing submitted by Atmos. Each component of Rate Base and each Cost of Service item was examined along with test year Revenues. Staff recommends two adjustments to the 2020 RSC Filing as submitted by Atmos. The first adjustment reduces the amount of the current income tax expense included as a Cost of Service item. Staff recommends that a 52% equity ratio be adopted to calculate the 2020 test year income taxes rather than Atmos' actual equity ratio of 58.36%. Based upon Staff's recommendation, the amount of income tax to be included as a Cost of Service item would be $16,826,566, or a reduction of $814,579, from the amount of income tax calculated by Atmos of $17,641,145.

The second adjustment recommended by Staff modifies the Company's proposed pass back of unprotected EDIT to its customers. Atmos has proposed a five-year period to amortize the balance of unprotected EDIT with the annual amortization amount being determined upon a straight-line basis (i.e. $10,942,561 over the next five RSC test years). Staff believes a shorter amortization period of the unprotected EDIT along with a flexible methodology to determine the annual amortization amount is more appropriate and better balances the interests of the Company's customers with those of Atmos.

Table 1 summarizes the revenue increase proposed by the Company and the revenue increase recommended by Staff.

Table 1
Atmos Energy Corporation
2020 RSC Filing
Determination of Revenue Adjustment

Description	**As Filed by Atmos**	**Staff Adjustments**	**Staff Adjusted 2020 Test Year**
Total Rate Base	$837,325,432		$837,325,432
Rate of Return on Rate Base	7.30%		7.30%
Return on Rate Base	$61,124,757		$61,124,757
O&M Expense	64,816,034		64,816,034
Depreciation Expense	38,332,438		38,332,438
Taxes Other Than Income	20,315,575		20,315,575
Interest Expense on Customer Deposits	122,250		122,250
Income Tax	17,641,145	(814,579)	16,826,566
Total Cost of Service	$202,352,199	($814,579)	$201,537,620
Margin Revenue at Present Rates	177,173,241		177,173,241
Amortization of Excess ADIT	(10,942,561)	(13,421,818)	(24,364,379)
Revenue Increase Required	$14,236,397	($14,236,397)	$0

Staff's recommendations are discussed more fully in a separate section of the Staff Report. Based upon Staff's adjustments, Staff recommends no increase in revenues.

Background of Atmos' Rate Stabilization Clause

On July 19, 2006, the Commission issued the RSC Order[3] approving the establishment of an RSC for Atmos' two Louisiana rate divisions, TLA and LGS. In 2006, TLA and LGS began to submit annual report filings according to the procedures established in the RSC Order and Rider RSC, and adjusted rates accordingly. In October 2013, Docket No. U-32987 was initiated in order for Staff to review the September 24, 2013 application filed by Atmos. In that application, Atmos requested the Commission's authorization to modify the respective RSCs of TLA and LGS. An Uncontested Joint Stipulated Settlement was reached between the Commission Staff and Atmos with the terms of the Uncontested Joint Stipulated Settlement modifying the RSC. As mentioned, the terms and conditions of the Atmos RSC were recently revisited in Docket No. U-35535. The Uncontested Joint Stipulated Settlement reached between Staff and Atmos in that proceeding modified several of the terms and conditions of the RSC. In compliance with LPSC Order Nos. U-35122 and U-35535, Atmos submitted the 2020 RSC filing for the twelve months ending December 31, 2020, for the consolidated Louisiana Division.

Major Provisions of the RSC

- *Filing and Review Period*

Atmos is to submit the annual RSC filing for the twelve month period ended December 31st on or before March 31st immediately following the close of the test year. Staff has a seventy-five (75) day period from the filing, or June 15, in which to review the Company's RSC filing.

- *Term of the Rate Stabilization Clause*

The Atmos RSC filings have been historically extended on a year-to-year basis rather than being filed over a set term. The current RSC will be in effect for a three-year term (i.e. for test years 2020, 2021, and 2022). Atmos is required to make a separate filing apart from the annual RSC report should the Company seek Commission approval to renew the RSC. The separate filing is due on or before January 31, 2023.

[3] *See* LPSC Order No. U-28814, Consolidated (Corrected) dated July 19, 2006.

- *Rate of Return on Rate Base*

Under the terms of the current RSC, the Louisiana Division is authorized to earn an overall Rate of Return on Rate Base of 7.30% whereas in prior RSC filings the Company was authorized the opportunity to earn a target Return on Equity ("ROE"). The RSC does not specify or provide for an earnings bandwidth in which rate changes would not be necessary should the earned overall ROR fall within such bandwidth. Instead, if the earned overall ROR on an adjusted test year basis is below or above the authorized overall ROR of 7.30%, rates are to be increased or decreased by the amount necessary to increase or decrease the earned overall ROR to the overall authorized ROR of 7.30%.

- *Annual Earnings Calculations*

The determination of the rate base is prescribed in the RSC, including individual items that are to be added or deducted. The RSC also specifies how individual components of the rate base are to be calculated (e.g. the annualization of year-end balances and/or a 13 month average). There is also a provision that the Company be allowed to establish and include in rate base a regulatory asset to record all costs incurred in connection with the acquisition, installation, and operation (including related depreciation but not property taxes) related to the System Integrity Investment Program ("SIIP").[4]

There are specific adjustments to test year expenses – mainly the annualization of year-end levels – prescribed in the RSC. There is also the opportunity to adjust for out-of-period items in order to normalize any test year anomalies. In addition, the RSC provides for a Weather Normalization Adjustment ("WNA") that serves to mitigate the effects of weather on customers' gas bills and on the earnings of the Louisiana Division.

The 2020 Test Year RSC Filing

In the 2020 RSC Filing, Atmos reported that the Louisiana Division required a revenue increase of $25,178,958 prior to the Company's proposed amortization of EDIT of ($10,942,561). The Company's proposed amortization of EDIT of ($10,942,561) reduces the gross revenue

[4] *See* Rate Stabilization Clause Rider RSC, Section D(5).

increase of $25,178,958 to a net revenue increase of $14,236,397. Table 2 presents the Company's calculation of the revenue increase.

Table 2
Atmos Energy Corporation
Louisiana Division
Company Calculation of RSC Adjustment to Increase Revenues
Test Year Ending December 31, 2020

Description	
Total Rate Base	$837,325,432
Rate of Return on Rate Base	7.30%
Return on Rate Base (Total Rate Base x Rate of Return)	61,124,757
Operation & Maintenance Expense	64,816,034
Depreciation & Amortization Expense	38,332,438
Taxes Other Than Income Taxes	20,315,575
Interest Expense on Customer Deposits	122,250
Income Tax	17,641,145
Total Cost of Service	$202,352,199
Margin Revenue at Present Rates	$177,173,241
Amortization of Excess Accumulated Deferred Income Taxes	(10,942,561)
Revenue Increase	$14,236,397

Atmos supported each of the line items found in Table 2 with schedules that identified the source of the activity and balances as well as the calculations where relevant.

Staff Review of the 2020 RSC Filing

Staff Analytical and Review Procedures

Staff reviewed the documentation provided in support of the 2020 RSC Filing submitted by Atmos. We confirmed that each of the test year adjustments made by the Company complied with the terms of the RSC. We also verified the accuracy of each test year adjustment as calculated in the lead and supporting schedules included with the 2020 RSC Filing. In addition, three sets of data requests were submitted to the Company seeking further information on the test year operations and financial results.

The trial balances for each month of the test year were also examined to determine whether other test year costs were nonrecurring in nature, deemed to be out-of-period expenses and/or not appropriate for recovery through customer rates. In addition, unusual expense activity for individual months was reviewed at the subaccount level. We conducted trend analyses of revenues and usage by customer class. Trend analyses were also performed on each cost of service item and each component of rate base. The Allocation Factors for the consolidated Louisiana Division were compared to the Allocation Factors of the standalone Louisiana rate divisions that were applied in prior test years.

Revenues

Staff reviewed the revenue activity reported by Atmos in the 2020 Filing and reconciled those amounts with the trial balance activity by revenue subaccount. The Purchased Gas Adjustment ("PGA") filings were also reviewed in order to reconcile the PGA cost recovery for the individual months of the 2020 test year with the amounts presented as base rate revenue in the 2020 RSC Filing.

Customer demand continued to decline in the 2020 test year compared to the 2019 test year; the second consecutive test year that reported a decline in customer usage. Although the 2020 test year customer usage is somewhat higher than the customer usage reported in the 2017 test year (in terms of 100 cubic feet or "ccf"), the 2020 test year volumes are nearly at the same level as the 2016 test year.

The terms of the RSC provide for a Weather Normalization Adjustment ("WNA") after it was tested on a trial basis and found that the Company's customers benefitted from the implementation of the WNA.[5] Deviations from normal weather conditions can cause large swings in revenues and Company earnings; therefore, the WNA was instituted to help smooth out the effects of weather. Under the WNA, the non-gas component of bills to customers is reduced if winter weather is colder than normal and, conversely, increased if winter weather is warmer than normal. As can be seen in Table 3, the WNA "normalized" test year volumes.

Table 3
Atmos Energy Corporation
Louisiana Division
Volume (ccf) by Customer Class
Test Years 2017 – 2020

Customer Class	2017	2018	2019	2020
Residential	100,401,403	131,762,247	123,376,710	113,091,924
Commercial	64,498,808	72,510,523	71,320,132	62,810,609
Farm and Agriculture	674,733	477,068	747,300	652,956
Correctional Facilities	1,039,514	1,095,722	1,016,355	924,523
Government Institutions	2,084,993	2,236,667	2,244,129	3,416,580
Total Louisiana Division	168,699,451	208,082,227	198,704,626	180,896,592
Weather Normalization Adjmt	32,837,480	(704,639)	12,441,385	18,988,637
Weather Adjusted Volume	201,536,931	207,377,588	211,146,011	199,885,229

Table 3 reflects combined Trans Louisiana Gas and Louisiana Gas Service Company

Total tariff revenue from customers was $173,563,210 in the 2020 test year on a weather adjusted basis, an increase of $5,898,115 over the 2019 test year level of $167,665,095. After the inclusion of Facility Fees and Other Revenue, the reported 2020 test year revenue for the Louisiana Division totaled $177,173,241, an increase of $4,249,244 over the 2019 test year level of $172,923,997.

[5] *See* Commission Order No. U-31952 dated September 20, 2011. The Commission extended the WNA "as an ongoing component of the Rate Stabilization Clauses for Atmos Energy Corporation's Trans Louisiana Gas Company and Louisiana Gas Service Company rate divisions."

Cost of Service

The Cost of Service includes Operation and Maintenance Expenses, Depreciation and Amortization Expense, Taxes Other Than Income, Interest Expense on Customer Deposits, and Income Taxes. Trend analyses were conducted on each Cost of Service expense account and the test year activity for individual expense accounts was reviewed in order to identify unusual swings and/or activity that could indicate the activity should be excluded from the test year. Each component is discussed below.

- *Operation and Maintenance ("O&M") Expense*

On a Per Books basis, O&M expenses increased in the 2020 test year by $984,197 from the prior test year. Table 4 presents the O&M expense activity incurred by the combined Louisiana Division during the 2019 and 2020 test years by major category of expense. The 2019 and 2020 test year O&M expenses incurred by TLA and LGS separately can be found in Exhibit No. 1.

Table 4
Atmos Energy Corporation
Louisiana Division
2019 Test Year vs. 2020 Test Year
Per Books Operation and Maintenance Expenses for Combined Louisiana Division
(Amounts prior to Uncollectible Expense Adjustment, Performance Benchmark Adjustment and Other O&M Adjustments)

Expense Category	2019 TY	2020 TY	Increase/(Decrease)
Total O&M Expense	$53,717,629	$54,701,826	$984,197
Transmission Expense - Oper	50,754	415,532	364,778
Transmission Expense - Maint	5,671,390	3,724,886	(1,946,504)
Distribution Expense - Oper	12,327,684	15,520,930	3,193,246
Distribution Expense – Maint	719,097	718,731	(366)
Customer Accounts Expense	5,551,455	6,422,017	870,562
Sales Promotion Expense	4,397	5,747	1,350
Administrative & General	29,392,852	27,893,983	(1,498,869)
Total	$53,717,629	$54,701,826	$984,197

The activity recorded to individual O&M expenses accounts was reviewed at the subaccount level and material variances were investigated. The increases in the costs recorded to the expense subaccounts investigated by Staff for both TLA and LGS are primarily due to the Company's greater use of Contract Labor in the areas of Transmission O&M Expenses and Distribution O&M Expenses. The use of Contract Labor was greater during the 2020 test year compared to the 2019 test due to more inspections and repairs and an increase in scanning and mapping facilities. To a much lesser extent, the costs recorded for Outside Services for LGS rose slightly in the 2020 test year over the 2019 test year due to the use of more Contract Labor. Staff verified the reasonableness of the individual vendors' charges rendering services to the Company in all cases of the higher costs for Contract Labor classified to these expense subaccounts. TLA and LGS also recorded higher uncollectible expenses during the 2020 test year over the 2019 test year as actual write-offs increased. It should be noted that the increase in uncollectible expenses in the 2020 test year were not related to the Covid-19 pandemic.

The RSC prescribes a series of adjustments to test year O&M expenses. The 2020 test year O&M adjustments made by Atmos comply with those prescribed in the RSC. The supporting documentation for each O&M adjustment was reviewed and the accuracy of each adjustment was confirmed. Table 5 presents the O&M adjustments made by the Company for the 2019 and 2020 test years.

Table 5
Atmos Energy Corporation
Louisiana Division
Rate Stabilization Clause
Adjustments to O&M Expenses
2019 Test Year and 2020 Test Year

Description	2019 TY	2020 TY	Inc/(Dec)
Per Books	$53,717,629	$54,701,826	$984,197
Benchmark Comparison O&M Adjustment			
Uncollectible Expenses	(187,955)	(1,990,227)	(1,802,272)
Adjusted O&M for Benchmark Comparison	53,529,674	52,711,599	(818,075)

O&M Limit per Settlement	10,465,726	12,076,052	1,610,326
O&M Expense after Benchmark Adjustments	63,995,400	64,787,651	792,251
O&M Expense Adjustments			
Payroll	447,744	444,486	(3,258)
Pension Expense	249,266	(150,523)	(399,789)
Property Insurance	(100)	86	186
Exclusion of Incentive Compensation	(874,104)	(596,021)	278,083
FAS 106 and PAYGO	(59,309)	8,117	67,426
Amortization of FAS 106 Disallowances	829,409	829,004	(405)
Not to Exceed Benchmark Index Adjustment	0	(506,766)	(506,766)
Total O&M Adjustments	592,906	28,383	(564,523)
Adjusted O&M Expense	$64,588,306	$64,816,034	$227,728

The "Benchmark Comparison O&M Adjustment" is noteworthy and has been discussed in detail in prior Staff Reports[6] in the evaluation of the annual Atmos RSC filings. This adjustment stems from the provisions of LPSC Order No. U-25003 that was issued on April 27, 2001. In that proceeding, the Commission conditionally approved the June 1, 2000 Joint Application of Citizens Communications Company ("Citizens") and Atmos Energy Corporation (jointly "the Applicants") of the acquisition of the Louisiana gas and certain other assets of Citizens by Atmos. The regulated assets of Citizens consisted of the properties and operations of Louisiana Gas Service Company.

The Applicants projected that there would be a minimum of $8,900,000 of annual, non-fuel savings resulting from the acquisition. A "Savings Mechanism" was approved in order to provide a sharing between LGS and its ratepayers for the anticipated savings attributed to the acquisition. Per Commission Order, the Savings Mechanism is to remain in effect for twenty (20) years.

[6] See Staff Report and Recommendation in Docket No. U-35525 (Atmos Energy Corporation 2019 Rate Stabilization Clause filing for Consolidated Louisiana Division).

Importantly, the annual RSC adjusted results and the corresponding revenue adjustments, are dependent upon the level of O&M savings that are calculated according to the terms of the Savings Mechanism. Order No. U-25003 allows LGS to include its share of the O&M savings as a cost of service adjustment item – effectively increasing the level of O&M expenses and, thereby, lowering test year earnings. Table 6 presents the magnitude of the financial effect upon the annual RSC results from this O&M expense item increase for each test year in the period 2018 through 2020.

Table 6
Atmos Energy Corporation
Louisiana Division
O&M Expense Savings per the Savings Mechanism and
Adjustment to Increase Company Test Year O&M Expense
2018 through 2020 Test Years

Description	2018	2019	2020
Benchmark O&M Expenses	$39,886,000	$39,886,000	$39,886,000
Inflation Adjusted Benchmark O&M Expense	55,183,186	56,140,265	57,071,670
Adjusted Test Year O&M Expense for Benchmark Comparison	35,774,217	39,059,614	37,825,441
Savings	$18,408,970	$17,080,651	$19,246,230
Ratepayer Share of Savings	$7,330,035	$6,614,925	$7,170,177
Atmos Share of Savings (increase in test year O&M expenses)	$12,078,935	$10,465,726	$12,076,052

As can be seen from the information presented in Table 6, the inflation adjusted Benchmark O&M Expenses continue to escalate from applying the Benchmark Index. The adjusted test year O&M expenses of LGS for each year in the study period, however, are still lower than the initial Benchmark O&M Expense of $39,886,000 that was adopted in 2001 as the starting point for the Savings Mechanism. The widening gap (or Savings) results in a greater increase in the Company's test year adjusted O&M expenses and lowers the adjusted test year earnings. Table 7 presents the effect of the O&M Benchmark Savings Adjustment on the test year revenue adjustment for test years 2018 through 2020.

Table 7
Atmos Energy Corporation
Louisiana Division
Effect of O&M Benchmark Savings Adjustment on
Annual Revenue Adjustment
(Excludes Effect of the Amortization of Excess Accumulated Deferred Income Taxes)

Description	2018	2019	2020
Including O&M Benchmark Adjustment			
Revenue Adjustment Increase/(Decrease)	$8,742,724	$15,767,489	$25,178,958
Excluding O&M Benchmark Adjustment			
Revenue Adjustment Increase/(Decrease)	($3,409,044)	$5,238,222	$13,031,903

The O&M Benchmark Savings Adjustment has led to a higher test year revenue adjustment since it went into effect. However, the O&M Benchmark Savings Adjustment is scheduled to fully expire during the 2022 test year and, all else being equal, the annual revenue adjustment should be lower for the Louisiana Division going-forward.

The terms of Commission Order No. U-35535 also require that the Company calculate a not-to-exceed O&M Benchmark adjustment. The purpose of this adjustment is to put a ceiling on the amount of O&M expenses that the Louisiana Division may include in the annual RSC filing. The adjustment is to remain in effect for seven years beginning with the 2020 test year. The not-to-exceed O&M Benchmark adjustment resulted in a decrease of $506,766 in the 2020 test year O&M expenses.

- *Depreciation and Amortization Expense*

The amount of depreciation expense for the Louisiana Division is calculated based upon its direct plant in service and an additional amount of plant and depreciation expense is allocated from other Atmos divisions that provide support services to the Louisiana Division.

The Proforma Depreciation Expense in the 2020 RSC Filing was $4,889,854 higher than the 2019 test year. The increase in the amount of Proforma Depreciation Expense is due to higher Per Book Depreciation Expense in the 2020 test year along with an increase in the prescribed adjustment for depreciation expense levels to reflect year-end plant balances. Table 8 presents the differences between the 2020 test year and the 2019 test year Pro Forma Depreciation Expense.

Table 8
Atmos Energy Corporation
Determination of Pro Forma Depreciation Expense
2020 RSC Filing and 2019 RSC Filing

Description	2020	2019	Difference
Per Book Depreciation Expense	$32,582,297	$30,218,827	$2,363,470
Adjustment to Reflect YE Plant Balances	5,750,141	3,223,757	2,526,384
Total Pro Forma Depreciation Expense	$38,332,438	$33,442,584	$4,889,854

The Per Book Depreciation Expense increased in the 2020 test year due to the amount of plant additions. Total Depreciable Plant for the Louisiana Division was $1.274 billion at year-end 2020 compared to $1.174 billion at year-end 2019. Most of the 2020 plant additions of $100.3 million were attributed to the SIIP expenditures – Atmos classified $81.7 million of the 2020 plant additions as SIIP-related capital expenditures.

The pro forma adjustment as prescribed in the RSC for Depreciation Expense to reflect year-end plant balances is higher in the 2020 test year over the 2019 test year due to the increase in plant balances (i.e. depreciation rates are being applied to higher investment balances). In addition, Atmos commissioned a Depreciation Rate Study be conducted to review the depreciable assets and existing depreciation rates of TLA and LGS as of September 30, 2020. The

Depreciation Rate Study resulted in an increase of $1.6 million in annual depreciation expense when compared to the rates currently in effect as of September 30, 2020. Much of the increase in Depreciation Expense recommended in the Depreciation Rate Study stems from changes in the negative net salvage rates for certain plant accounts. As explained in the Depreciation Rate Study:

> "Salvage and removal cost percentage are calculated by dividing the current cost of salvage or removal by the original installed cost of the asset. Some plant assets can experience significant negative removal cost percentages due to the timing of the original addition versus the retirement...The net salvage analysis uses the history of the individual accounts to estimate the future net salvage that Atmos Louisiana can expect in its operations."[7]

Staff reviewed the Depreciation Rate Study that Atmos included with the 2020 RSC Filing. A set of discovery was submitted to Atmos for further information and documentation regarding the proposed depreciation rates.[8] Based upon Staff's review of the Depreciation Rate Study and the supporting documentation received in response to discovery, Staff finds the proposed deprecation rates reasonable.

The amount of depreciation expense for the Louisiana Division is not only calculated based upon its direct plant in service but there is an additional amount of plant and depreciation expense that is allocated from other Atmos divisions that provide support services to the Louisiana Division. The amount of Allocated Depreciation Expense from these divisions to the Louisiana Division totaled $2,577,770 in the 2020 test year compared to $1,997,745 in the 2019 test year, an increase of $580,025. The increase in the amount of Depreciation Expense allocated from these support divisions is primarily due to higher Depreciable Plant Balances that increased approximately $22.3 million over the 2019 Depreciable Plant Balances.

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[7] Deprecation Rate Study, Atmos Energy Corporation, Louisiana Division, as of September 30, 2020 conducted by Alliance Consulting Group (page 50).

[8] See Staff's Third Set of Data Requests to Atmos Energy Corporation.

Exhibit No. 2 provides a comparison between the 2020 and 2019 RSC test years of the detail on the direct and allocated depreciation expense as well as the depreciable plant balances for the Louisiana Division.

- *Taxes Other Than Income Taxes*

The Louisiana Division incurs several types of taxes in addition to income taxes and these costs are recovered through customer rates. The amounts reported as Taxes Other Than Income Taxes in the 2020 RSC filing were reconciled to the trial balance activity at the expense subaccount level for TLA and LGS. The total amount of Taxes Other Than Income increased by $2,353,953 in the 2020 test year over the 2019 test year. The most material tax classified as Taxes Other Than Income is the *ad valorem* that is assessed on property. The *ad valorem* recorded by the Louisiana Division in the 2020 test year totaled $16,345,632, an increase of $2,503,488 over the 2019 test year *ad valorem* of $13,842,144. The additions to distribution plant – primarily the result of the Company's SIIP capital expenditures – increased the base on which the *ad valorem* is assessed. Exhibit No. 3 provides a summary of the Taxes Other Than Income Taxes that the Louisiana Division incurred for each test year during the period of 2014 through 2020.

- *Interest Expense on Customer Deposits*

The Interest Expense on Customer Deposits is calculated at an interest rate of 5.00% based upon the most recent thirteen month average of outstanding customer deposits. Table 9 provides a summary of the Interest Expense on Customer Deposits included in each RSC filing for test years 2016 through 2020.

Table 9
Atmos Energy Corporation
Louisiana Rate Division
Interest Expense on Customer Deposits

Description	2017 TY	2018 TY	2019 TY	2020 TY
Customer Deposits	$2,952,855	$2,796,964	$2,686,836	$2,444,992
Interest Rate	5.00%	5.00%	5.00%	5.00%
Interest Expense	$147,643	$139,848	$134,342	$122,250

As presented in Table 9, the smaller average balance of Customer Deposits in the 2020 test year resulted in a slightly lower amount of interest expense than incurred in the prior test year.

Income Taxes

Regulated utilities like Atmos have an investment in rate base that must be financed with long-term capital. The management of Atmos relies upon some combination of long-term debt and equity to finance the rate base. Interest expense is incurred on the portion of rate base that is funded by debt while the portion of the rate base that is financed by equity is treated as income to Atmos. Importantly, interest expense is tax deductible whereas there is a current income tax liability associated with the equity portion of funding the rate base that must be recovered from the Company's customers.

The Atmos consolidated capital structure at year-end has been used as a proxy for the capital structure of the Louisiana rate divisions for the purpose of the annual RSC filings.[9] The debt ratio of the Atmos consolidated capital structure – or the percentage of the rate base financed by debt – was 41.64% at year-end 2020 while the equity ratio was 58.36%. The current income tax liability calculated by Atmos for the purposes of the Louisiana Division 2020 RSC filing is based upon the Atmos consolidated capital structure that includes the equity ratio of 58.36%. The use of the actual equity ratio of 58.36% in the determination of the 2020 test year income tax liability results in income taxes of $17,641,145.

In prior Annual Reports[10] that evaluated the RSC filings of Atmos, Staff has expressed its concerns with the use of an equity ratio that it believes is excessive[11] and leads to higher than necessary costs to be recovered from the Company's ratepayers. Therefore, Staff recommends that a debt ratio of 48% and an equity ratio of 52% be used for the purpose of determining the 2020 test year income taxes. Based upon Staff's recommendation to adopt a 52% equity ratio in the

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[9] Order No. U-32987, Atmos Energy Corporation, ex parte. In re: *Request to modify the Rate Stabilization Clause for Atmos Energy's Louisiana regulatory divisions Trans Louisiana Gas and Louisiana Gas Service*, issued June 30, 2014.

[10] See LPSC Docket Nos. U-35525, U-35153, U-35106, U-34803, and U-34714.

[11] The actual capital structure of Atmos Energy Corporation is used as a proxy for ratemaking purposes by the consolidated Louisiana Division. See LPSC Docket No. U-35122 and Docket No. U-35535 for a discussion of Staff's concerns regarding the year-to-year increases in the equity ratio.

calculation of the 2020 test year income taxes, the amount of income tax to be included as a Cost of Service item would be $16,826,566, or a reduction of $814,579 from the amount of income tax calculated by Atmos of $17,641,145.

Rate Base

The terms of the RSC specify the items to be included in the calculation of the rate base and the methodology that is to be used to determine the balance of each item.[12] As a result of the SIIP-related capital expenditures, the Net Plant in Service balances of TLA and LGS (now the Louisiana Division) have increased materially each year. The combined balance of Net Plant in Service for TLA and LGS totaled $525.0 million in the 2014 test year and that balance has increased to $1.020 billion in the 2020 test year. The increase is attributed to additions to Distribution Plant which have grown the balance by $462.2 million since the 2015 test year.

The rate base totaled $837.3 million in the 2020 test year, an increase of $90.3 million from the 2019 test year of $747.0 million. The increase in Plant in Service of $101.5 million was offset by higher Accumulated Depreciation and an overall increase in rate base deductions which was due primarily to an increase in Accumulated Deferred Income Taxes ("ADIT"). Table 10 presents a high level summary of the calculation of the rate base for the 2019 and 2020 test years. Exhibit No. 4 provides the calculation of the rate base, including the balances of each rate base component, for each test year in the period of 2014 through 2020.

Table 10
Atmos Energy Corporation
Louisiana Division
Calculation of Rate Base
($ in millions)

Description	2019 TY	2020 TY	Increase/(Decrease)
Net Plant	$922.3	$1,019.0	$96.7
Construction Work in Progress	1.7	0.9	(0.8)
Total Net Plant	924.0	1,019.9	95.9

[12] Rate Stabilization Clause, Rider RSC, Section D(1)-(5).

Additions to Rate Base	11.7	12.2	0.5
Deductions from Rate Base	(188.7)	(194.8)	(6.1)
Total Rate Base	$747.0	$837.3	$90.3

The Plant in Service additions of approximately $101.5 million were mostly due to Atmos' continued commitment to the SIIP. The SIIP-related capital expenditures during the 2020 test year totaled $81.7 million, excluding Cost of Removal expenses of $4.4 million. Table 11 presents the detail of the Company's SIIP capital expenditures for the 2020 test year.

Table 11
Atmos Energy Corporation
Louisiana Division
System Integrity Investment Program Expenditures
2020 Test Year

Description	
Mains	$54,716,610
Services	19,099,670
Meters	4,845,794
Other	3,077,223
Total SIIP Additions	81,739,297
Cost of Removal	4,386,589
Total SIIP Expenditures	$86,125,886

The Company's commitment to the SIIP tracks the recent developments in the natural gas pipeline industry affecting pipeline safety and integrity. The SIIP combines Atmos' proactive approach to pipeline safety with its response to state and federal regulations.

The SIIP capital expenditures that Atmos has made since 2015 throughout the State of Louisiana to replace aging and/or unsuitable pipe, as well as replacing distribution facilities in higher risk areas, have been substantial. Table 12 provides the SIIP capital expenditures made on behalf of the Louisiana regulatory divisions.

Table 12
Atmos Energy Corporation
Louisiana Division
SIIP-Related Capital Expenditures
RSC Test Years 2015 – 2020

Year	TLA	LGS	Total LA Division
2015	$21,743,212	$20,568,136	$42,311,348
2016	22,887,377	33,818,305	56,705,682
2017	16,525,195	39,547,808	56,073,003
2018	20,081,446	51,295,000	71,376,446
2019	49,561,338	51,627,501	101,188,839
2020	51,840,211	34,285,675	86,125,886
Total	$182,638,779	$231,142,425	$413,781,204

Staff has expressed its concerns in prior reviews of TLA and LGS RSC test year filings over the growth in rate base due to the level of SIIP-related capital expenditures.[13] The Commission shares Staff's concerns and has recently opened a separate docket at the directive of Chairman Greene to evaluate the prudence and reasonableness of the Company's SIIP expenditures in Louisiana together with the need, if any, to implement alternative fair and reasonable cost recovery mechanisms.[14]

Amortization of Excess Accumulated Deferred Income Taxes

Congress enacted the Tax Cuts and Jobs Act ("TCJA") on December 22, 2017 with an effective date of January 1, 2018. For ratemaking purposes, the TCJA affects the Company in two ways: (1) the reduction in the current income tax liability as a result of lowering the corporate

[13] See LPSC Docket No. U-35122, Docket No. U-35525, and Docket No. U-35535 for a discussion of Staff's concerns over the growth in the rate base of the Louisiana Division due to SIIP plant additions.

[14] At the Commission's March 17, 2021 Business and Executive Session, Chairman Greene directed Staff to open a docket to conduct a prudence review of Atmos Energy Corporation's System Integrity Improvement Plan from 2013 through 2020, to examine the SIIP-related investments to determine reasonableness and prudence as well as an evaluation as to whether the program should proceed as planned by Atmos and what parameters, if any, are necessary to implement, including fair and reasonable cost recovery mechanisms, in order to ensure that the SIIP benefits customers. Docket No. X-35937 was subsequently opened to address Chairman Greene's directive.

income tax rate from 35% to 21% and (2) the deferred tax consequences that will occur over the longer term.

The calculation of the current income tax liability at the new statutory rate of 21% is straightforward. The current period adjusted revenues and adjusted Cost of Service items are not affected by the enactment of the TCJA and the new, lower statutory rate of 21% is applied to determine the current income tax expense.

On the other hand, the reduction in the corporate income tax rate required the Company to undertake the more complex analysis to revalue the amount of Accumulated Deferred Income Taxes ("ADIT") using the new statutory rate. TLA and LGS had been accruing ADIT as a balance sheet item at the former corporate income tax rate; the enactment of the new statutory rate resulted in an excess of the ADIT accrued in prior periods. The estimated amount of the Excess Accumulated Deferred Income Taxes ("EDIT") must be removed from the balance of its ADIT and a new regulatory liability must be established in that amount for refund to customers over an amortization period that is compliant with the regulations of the Internal Revenue Service ("IRS").

Accumulated Deferred Income Taxes are generated primarily from the differences in the timing of when a cost is expensed or deducted for income tax purposes and when it is expensed on the books of the utility. In general, costs are expensed on an accelerated basis for tax return purposes than for book purposes. Typically, the most material book/tax timing differences arise from plant which is expensed for tax purposes under the accelerated depreciation guidelines of the IRS faster than it is recorded as an expense on the books of the utility.

The balance of a company's EDIT falls into two categories: (1) protected and (2) unprotected. Most of the protected EDIT results from the book/tax timing differences that result from the use of accelerated depreciation methodologies for tax purposes. Importantly, the return of the protected EDIT to the utility's customers is restricted by the normalization provisions of the TCJA. Pursuant to the TCJA, the timing of the pass back of protected EDIT must align with the timing of when the utility will receive the benefit from the reduction in the tax rate – a period of timing difference reversals that could span up to forty (40) years.

Certain plant-related EDIT and all non-plant related EDIT are considered by the IRS to be unprotected EDIT. The plant-related unprotected EDIT is associated with deferred income taxes generated by the "capital repairs" tax deduction for certain plant assets recorded on the utility's books that were eligible for immediate deduction as an expense on the utility's federal income tax return. Significantly, there are no restrictions on the timing in which unprotected EDIT may be returned to the utility's customers.

In response to the enactment of the TCJA, the Commission issued Special Order No. 13-2018 at its Business and Executive Session held on February 21, 2018 to provide notice that LPSC-jurisdictional utilities are required to immediately track and record the impacts of the TCJA. Specifically, utilities were required to record as a regulatory liability those amounts necessary to reflect both the reduced federal corporate tax rate expense of 21% and the associated savings in EDIT. The Commission also initiated a new rulemaking docket (Docket No. R-34754) to consider the issues surrounding the effects of the TCJA and the appropriate manner in which to flow through the related tax benefits to ratepayers.

The Final Rules approved by the Commission in Docket No. R-34754 are explicit in the pass back of protected and unprotected EDIT:

> I.C. Rates shall be adjusted in a manner that amortizes back to ratepayers the Excess Accumulated Deferred Income Tax Balances ("ADIT") ("Protected") pursuant to current normalization rules, applicable to public utility property, subject to accelerated depreciation under Sections 167 and 168 of the TCJA using the Average Rate Assumption Method ("ARAM") or, if applicable, the Reverse South Georgia method.

1.D. Excess deferred tax balances other than those depreciated under Section 167 and 168 of the TCJA (*e.g.*, benefit plans, bad debts, casualty losses, *etc.*) ("Unprotected") shall be treated separately from plant assets and rates shall be adjusted to account for an amortization back to ratepayers over 24 months or over such other period of time approved by the Commission upon a request by the utility and a demonstration that some alternative amortization period is also just and reasonable.[15]

Shortly after the passage of the TCJA, Atmos initially computed a balance of EDIT for TLA of $23,298,335 and LGS of $38,293,897. The Company did not declare any of the EDIT for either TLA or LGS as unprotected and proposed to amortize the entirety of the estimated EDIT over a twenty-three (23) year period. In response to Staff discovery in this proceeding, Atmos responded that "under the original amortization filing, all unprotected and protected balances were being amortized using the same life."[16]

Atmos has revisited its position on the pass back of the amount of EDIT to its customers based upon the release of Rev Proc 2020-39 on August 21, 2020 by the IRS. The Company responded to Staff discovery explaining that "the Company bifurcated the EDIT into 'protected' vs 'unprotected' categories. The 'Unprotected' category comes from Plant basis differences between tax and book records, which is calculated by summarizing the amount of Repairs and Corporate Overhead deducted on Atmos Energy tax returns, in the amount of ($61,495,038).[17]

In the 2020 RSC filing, Atmos proposes a five-year amortization period to pass back the remaining balance of unprotected EDIT of $54,828,002. As proposed by the Company, the annual amortization amount for the pass back of the balance of the unprotected EDIT is $10,965,600.

[15] LPSC General Order No. 2-7-2019 (R-34754) dated February 7, 2019.
[16] See Atmos response to Staff Data Request No. 1-03 in Docket No. U-35951.
[17] See Atmos response to Staff Data Request No. 1-03 in Docket No. U-35951.

Notably, there is no IRS constraint when it comes to the pass back of unprotected EDIT. The IRS has expressed its position with respect to the effects of tax rate changes on timing differences associated with unprotected plant or non-plant related items:

> "The appropriate amortization or other rate making treatment of timing differences unrelated to accelerated depreciation, such as unprotected plant or non plant related items, are to be determined by the regulator in a rate proceeding, consistent with the regulatory authority over the rate making treatment of all other elements of jurisdictional cost of service."[18]

The requirements of General Order 2-7-2019 (Docket No. R-34754) should also be kept in mind when considering the pass back of the remaining balance of the Company's unprotected EDIT. In that General Order, the Commission required that the balance of unprotected EDIT be flowed through to customers over twenty-four (24) months. In light of the position of the IRS and the requirements of the Commission's General Order, Staff believes that the Company's proposed five-year, straight-line amortization schedule to pass back the balance of unprotected EDIT should be modified in order to more appropriately benefit the customers of Atmos while still balancing the interests of the Company.

Staff recommends that the Commission approve a period of three (3) years for the amortization of the remaining balance of the Company's unprotected EDIT. In addition, Staff does not recommend a straight-line dollar amortization of the balance of the unprotected EDIT. Instead, the determination of the annual amortization amount should be contingent upon the magnitude of the adjustment to increase revenues based upon the Staff-adjusted test year results. For instance, the Staff-adjusted results for the 2020 test year, prior to the amortization of EDIT, is $24,364,379. Based upon Staff's recommendation, the amount of the Amortization of Excess ADIT – both protected and unprotected EDIT – would total $24,364,379 and, thereby, eliminate the need for an adjustment to increase revenues and rates. The same methodology would drive the Company's amortization of protected and unprotected EDIT that is part of the 2021 RSC Filing.

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[18] See Internal Revenue Service Rev Proc 2020-39 issued on August 21, 2020.

Any remaining balance of unprotected EDIT would be completely passed back to the customers of Atmos as part of the 2022 RSC Filing.

Staff Recommendations

In the 2020 RSC Filing, Atmos has proposed an adjustment to increase revenues by \$25,178,958 prior to its amortization of EDIT of (\$10,942,561). The amortization of EDIT reduces the overall revenue increase of \$25,178,958 to \$14,236,397.

Staff recommends two adjustments to the 2020 RSC Filing as presented by Atmos. The first adjustment reduces the amount of the current income tax expense included as a Cost of Service item. Staff recommends that a 52% equity ratio be adopted to calculate the 2020 test year income taxes rather than the Atmos' actual equity ratio of 58.36%. Based upon Staff's recommendation, the amount of income tax to be included as a Cost of Service item would be \$16,826,566, or a reduction of \$814,579 from the amount of income tax calculated by Atmos of \$17,641,145.

The second adjustment recommended by Staff modifies the Company's proposed pass back of unprotected EDIT to its customers. Atmos has proposed a five-year period to amortize the balance of unprotected EDIT with the annual amortization amount being determined upon a straight-line basis (i.e. \$10,942,561 over the next five RSC test years). Staff believes a shorter amortization period of the unprotected EDIT along with a flexible methodology to determine the annual amortization amount is more appropriate and better balances the interests of the Company's customers with those of Atmos.

Staff recommends that the Commission approve a period of three (3) years for the amortization of the remaining balance of the Company's unprotected EDIT. In addition, Staff does not recommend a straight-line dollar amortization of the balance of the unprotected EDIT. Instead, the determination of the annual amortization amount should be contingent upon the magnitude of the adjustment to increase revenues based upon the Staff-adjusted test year results. For instance, the Staff-adjusted results for the 2020 test year, prior to the amortization of EDIT, is \$24,364,379. Based upon Staff's recommendation, the amount of the Amortization of Excess

ADIT – both protected and unprotected EDIT – would total $24,364,379 and, thereby, eliminate the need for an adjustment to increase revenues and rates. The same methodology would drive the Company's amortization of protected and unprotected EDIT that is part of the 2021 RSC Filing. Any remaining balance of unprotected EDIT would be completely passed back to the customers of Atmos as part of the 2022 RSC Filing.

The adjustments recommended by Staff (1) to reduce the amount of current income taxes by $814,579 and (2) to increase the amortization of protected and unprotected EDIT to $24,364,379 eliminates the need for the increase in revenues as presented in the 2020 RSC Filing by Atmos.

Respectfully Submitted,
LPSC STAFF

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justin.bello@la.gov

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing has been served upon the service list in Docket U-35951 via electronic mail on this 15th day of June, 2021.

Justin Bello

BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION

ATMOS ENERGY CORPORATION
CONSOLIDATED LOUISIANA RATE DIVISION
EX PARTE.

Docket No. U-35951 2020 Test Year Rate Stabilization Clause filing for Consolidated Louisiana Rate Division.

AFFIDAVIT

STATE OF GEORGIA

DEKALB COUNTY

BEFORE ME, the undersigned authority, personally came and appeared:

William J. Barta

who did declare and state that he is the same William J. Barta who prepared the Staff Report and Recommendation as filed in the above-captioned docket: that such report and accompanying exhibits were prepared by him and/or under his direction and supervision; that he is familiar with the contents thereof; that the facts and representations set forth therein are true and correct to the best of his knowledge, information and belief.

William J Barta
William J. Barta

SWORN TO AND SUBSCRIBED before me, this 14 day of June 2021.

NOTARY PUBLIC

Edward J Burke
NOTARY PUBLIC
Fulton County, Georgia
My Commission Expires 9/19/2023

Docket No. U-35951

Staff Report and Recommendation

WJB Exhibit 1A

LGS 2014-2020 Test Year RSC Filings Per Books Results

Exhibit No. 1A

Louisiana Public Service Commission
Docket No. U-35951
Atmos Energy Corporation
Rate Stabilization Clause 2020 Test Year Filing
Louisiana Gas Service Company

2014 - 2020 Test Year RSC Filings
Per Books Results

Description	FERC Account	U-32987 2014	U-34028 2015	U-34424 2016	U-34803 2017	U-35153 2018	U-35525 2019	U-35951 2020
Transmission Expenses (Operation)								
Supervision and Engineering	850	-	1,014	269,817	-	-		
Mains Expenses	856	-	-	1,404	-	-	50,754	415,532
Measuring and Regulating Station Exp	857	244	-	-	-	-		
Maintenance of Mains	863	-	-	-	-	-	-	-
Total		244	1,014	271,221	-	-	50,754	415,532
Transmission Expenses (Maintenance)								
Supervision and Engineering	861	-	-	-	1,672	-		-
Structures and Improvements	862	17,575	203,481	4,048	-	-		-
Maintenance of Mains	863	-	25,527	1,607	-	1,850		5,252
Maintenance of Compression Station Equip	864	319	-	-	-	-		552
Maintenances of M&R Station Equipment	865	368	-	-	-	-		
Maintenance of Supervision and Engineering	870	1,603,578	1,697,618	2,213,329	1,779,192	2,438,157	4,318,898	2,210,176
Total		1,621,840	1,926,626	2,218,984	1,780,864	2,440,007	4,318,898	2,215,980
Distribution Expenses (Operation)								
Maintenance Supervision	784	-	-	4,641	1,151	46	-	-
Supervision and Engineering	870	-	-	-	-	-	-	-
Distribution Load Dispatching	871	12,819	9,296	9,916	6,070	538	217	
Odorization	871.1	854	4,840	13,144	5,470	83	462	
Compressor Station Labor and Expense	872	218	-	668	-	-	-	18
Mains and Services Expenses	874	4,156,394	4,544,110	4,602,353	5,003,600	5,299,801	5,585,068	7,011,392
Measuring and Regulating Station - Gen	875	266,896	230,744	253,248	398,039	551,616	468,827	514,793
Measuring and Regulating Station - Ind	876	16,216	14,078	13,833	12,503	1,413	2,267	9,116
Measuring and Regulating Station - CG	877	139,897	154,687	191,965	218,433	7,402	701	-
Meter and House Regulator Expenses	878	1,567,683	1,533,090	1,630,727	1,573,196	1,253,755	1,208,837	1,177,767
Customer Installation Expenses	879	427,994	453,931	491,064	587,107	764,616	833,986	792,909
Other Expenses	880	1,895	1,410	5,279	827	1,027	2,079	334,242
Rents	881	288,928	292,579	278,131	245,139	241,806	219,995	262,248
Total		6,879,794	7,238,765	7,494,969	8,051,535	8,122,103	8,322,439	10,102,485
Distribution Expenses (Maintenance)								
Supervision and Engineering	885	127,469	105,968	81,864	65,702	30,338	234	
Structures - Improvements	886	-	-	-	-	-	-	
Mains	887	255,547	331,353	323,256	769,419	205,591	332,073	95,064

Measuring and Regulating Station - Gen	889	94,661	97,661	101,102	17,268	48,225	29,573	28,951
Measuring and Regulating Station - Ind	890	13,400	1,800	-	248	585	407	256
Measuring and Regulating Station - CG	891	14,677	23,361	26,176	32,513	-	-	490
Services	892	78,318	100,200	82,768	52,830	94,860	211,349	241,420
Meter and House Regulators	893	51,165	58,549	75,771	62,784	15,715	14,741	50,413
Other Equipment	894	2,525	112	-	3,872	6,868	7,565	2,456
Other Plant	895	-	-	-	-	-	-	-
Total		637,762	719,004	690,937	1,004,636	402,182	595,942	419,050
<u>Customer Accounts Expense</u>								
Supervision	901	-	235	-	-	-	-	-
Meter Reading Expenses	902	1,468,736	1,397,661	1,294,068	1,316,012	1,271,660	1,369,059	1,286,216
Customer Records and Collection Expense	903	1,604,280	1,184,716	1,752,395	1,507,964	1,683,598	1,667,337	1,514,336
Uncollectible Accounts	904	1,965,022	1,342,031	929,753	1,233,414	1,371,504	1,129,280	2,213,507
Misc Customer Accounts Expense	905	-	-	-	-	-	-	-
Total		5,038,038	3,924,643	3,976,216	4,057,390	4,326,762	4,165,676	5,014,059
<u>Customer Service Expenses</u>								
Supervision	907	-	-	-	-	-	-	-
Customer Assistance Expense	908	-	-	-	-	-	-	-
Informational Advertising	909	-	-	-	-	-	546	
Misc Customer Service Expense	910	-	-	-	-	-	-	-
Total		-	-	-	-	-	546	-
<u>Sales Promotion Expenses</u>								
Supervision	911	-	-	-	-	-	-	-
Demonstrating and Selling	912	608	167	547	1,707	836	1,464	3,682
Sales - Advertising	913	2,167	-	33	-	-	576	
Sales - Miscellaneous Sales Expense	916	-	-	-	-	-	-	-
Total		2,775	167	580	1,707	836	2,040	3,682
<u>Administrative and General Expenses</u>								
Administrative and General Salaries	920	-	-	-	19,271	39,080	31,939	-
Office Supplies and Expenses	921	532,833	546,389	562,584	583,742	607,101	628,653	637,779
Adminstrative Expenses Transferred	922	14,674,342	17,156,503	16,151,156	15,716,076	16,568,519	17,543,927	6,601,882
Outside Services Employed	923	47,190	58,809	41,340	43,680	82,434	76,105	219,847
Property Insurance Debits	924	169,034	176,706	170,272	169,686	173,614	174,049	173,510
Injuries and Damages	925	175,241	396,214	271,650	163,012	149,632	378,822	317,558
Employee Pensions and Benefits	926	3,479,601	3,418,318	3,152,098	3,342,606	3,016,366	2,866,071	2,994,277
Franchise Requirements	927	-	-	-	-	-	-	-
Regulatory Commission Expenses	928	1,333	-	-	-	-	-	-
Duplicate Charges	929	-	-	-	-	-	-	-
General Advertising Expenses	930.1	-	667	-	-	-	-	-
Miscellaneous General Expenses	930.2	-	-	-	1,532	-	27	
Rents	931	-	-	605	-	-	-	-
Total		19,079,574	21,753,606	20,349,705	20,039,605	20,636,746	21,699,593	20,944,853
Total Per Books Operation & Maintenance		$ 33,260,027	$ 35,563,825	$ 35,002,612	$ 34,935,737	$ 35,928,636	$ 39,155,888	$ 39,115,641

CASE NO. 2021-00214
ATTACHMENT 1
TO AG DR NO. 1-63

Docket No. U-35951

Staff Report and Recommendation

WJB Exhibit 1B

TLA 2014-2020 Test Year RSC Filings Per Books Results

Exhibit No. 1B

Louisiana Public Service Commission
Docket No. U-35951
Atmos Energy Corporation
Rate Stabilization Clause 2020 Test Year Filing
Trans Louisiana Gas

2014 - 2020 Test Year RSC Filings
Per Books Results

Description	FERC Account	U-32987 2014	U-33925 2015	U-34343 2016	U-34714 2017	U-35106 2018	U-35525 2019	U-35951 2020
Product Extraction								
Maintenance supervision and engineering	784	-	-	-	69	-	-	-
Transmission Expenses (Operation)								
Supervision and Engineering	850	-	-	-	-	-	-	-
Mains Expenses	856	-	682	-	-	-	-	-
Measuring and Regulating Station Exp	857	958	6,718	30,252	-	-	-	-
Maintenance of Mains	863	-	-	-	-	-	-	-
Total		958	7,400	30,252	-	-	-	-
Transmission Expenses (Maintenance)								
Maintenance Supervision & Engineering	861						-	-
Maintenance of Structures and Improvement	862						-	-
Maintenance of Mains	863						-	-
Maintenance of Compressor Station	864						-	-
Maintenance of M&R Equipment	865						-	-
Supervision and Engineering	870						1,352,492	1 508,906
Total							1,352,492	1 508,906
Distribution Expenses (Operation)								
Supervision and Engineering	870	641,479	722,629	928,856	728,019	793,017	-	-
Distribution Load Dispatching	871	-	607	132	(19)	4,598	-	-
Odorization	871.1	1,527	16,791	37,699	60,441	-	1,276	651
Compressor Station Labor and Expense	872	-	-	-	-	-	-	
Mains and Services Expenses	874	1,658,768	1,945,111	2,121,580	2,015,867	2,548,503	2,615,095	2 889,842
Measuring and Regulating Station - Gen	875	112,099	111,904	146,504	179,601	191,445	207,491	280,146
Measuring and Regulating Station - Ind	876	5,244	5,423	6,381	5,987	8,160	8,522	6,993
Measuring and Regulating Station - CG	877	4,349	40,211	7,523	1,566	9,146	-	
Meter and House Regulator Expenses	878	482,530	553,404	607,391	573,332	517,768	588,989	417,841
Customer Installation Expenses	879	92,949	102,624	134,563	121,902	234,524	274,976	243,965
Other Expenses	880	9		520	7	-	664	1,259,456
Rents	881	261,956	300,245	290,377	269,073	289,084	308,232	319,551
Total		3,260,910	3,798,949	4,281,526	3,955,776	4,596,245	4,005,245	5,418,445
Distribution Expenses (Maintenance)								
Supervision and Engineering	885	-	-		-	565	-	-

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Structures - Improvements	886	106,270	-		-	-	-	-
Mains	887	8,792	112,555	125,299	113,862	55,266	89,102	90,347
Measuring and Regulating Station - Gen	889	-	1,615	1,821	1,210	7,117	5,115	8,144
Measuring and Regulating Station - Ind	890	-	-		-	-	2,405	3,378
Measuring and Regulating Station - CG	891	22,626	28,901	22,128	32,421	91	450	
Services	892	1,548	2,301	8,967	5,312	8,199	18,827	108,905
Meter and House Regulators	893	660	-		-	3,529	5,770	86,530
Other Equipment	894	-	(4)		-	5,988	1,486	2,377
Other Plant	895	-	-	-	-	-	-	-
Total		139,896	145,368	158,215	152,805	80,755	123,155	299,681
Customer Accounts Expense								
Supervision	901	-	-	-	-	-	-	-
Meter Reading Expenses	902	348,407	344,631	302,085	292,659	330,845	340,851	320,366
Customer Records and Collection Expense	903	1,329,360	554,372	432,820	435,312	475,731	479,182	218,606
Uncollectible Accounts	904	783,340	610,977	401,047	499,730	575,073	565,200	868,986
Misc Customer Accounts Expense	905	-	-	-	-	-	-	-
Total		2,461,107	1,509,980	1,135,952	1,227,701	1,381,649	1,385,233	1,407,958
Customer Service Expenses								
Supervision	907	-	-	-	-	-	-	-
Customer Assistance Expense	908	-	-	-	-	-	-	-
Informational Advertising	909	-	-	-	-	-	-	-
Misc Customer Service Expense	910	-	-	-	-	-	-	-
Total		-	-	-	-	-	-	-
Sales Promotion Expenses								
Supervision	911	-	(2)	-	-	-	-	-
Demonstrating and Selling	912	7,805	4,035	518	1,152	238	2,086	2,065
Sales - Advertising	913	303	24	-	-	825	271	
Sales - Miscellaneous Sales Expense	916	-	104	-	-	-	-	-
Total		8,108	4,161	518	1,152	1,063	2,357	2,065
Administrative and General Expenses								
Administrative and General Salaries	920	(4,663)	-	102	3,130	12,896	10,646	
Office Supplies and Expenses	921	2,287	5,197	(5,892)	(10,428)	(16,167)	(17,527)	(6,861)
Adminstrative Expenses Transferred	922	4,722,045	5,317,836	5,290,774	5,268,266	5,213,618	5,729,312	5,535,234
Outside Services Employed	923	20,610	10,335	98,338	27,490	13,259	12,919	64,921
Property Insurance Debits	924	70,546	70,283	71,342	70,973	74,154	72,827	77,758
Injuries and Damages	925	47,816	91,034	42,136	73,756	48,769	566,473	28,906
Employee Pensions and Benefits	926	1,351,501	1,435,145	1,270,235	1,271,507	1,270,126	1,318,114	1,248,664
Franchise Requirements	927	-	-	-	-	-	-	-
Regulatory Commission Expenses	928	-	-	-	-	-	-	-
Duplicate Charges	929	1,333	-	-	-	-	-	-
General Advertising Expenses	930.1	-	1,333	-	-	-	-	-
Miscellaneous General Expenses	930.2	-	-	-	-	-	495	508
Rents	931	24	37	441	-	-	-	-
Total		6,211,499	6,931,200	6,767,476	6,704,694	6,616,655	7,693,259	6,949,130
Total Per Books Operation & Maintenance		12,082,478	12,397,058	12,373,939	$ 12,042,197	$ 12,676,367	$ 14,561,741	$ 15,586,185

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Staff Report and Recommendation

WJB Exhibit 2

TLA and LGS Depreciation Expense 2020 Test Year vs 2019 Test Year

Exhibit No. 2

Louisiana Public Service Commission
Docket No. U-35951
Atmos Energy Corporation - Louisiana Division
2020 Test Year Rate Stabilization Clause Filing

TLA and LGS Depreciation Expense
2020 Test Year vs 2019 Test Year

Description	2020 Test Year	2019 Test Year	Difference
Per Book Depreciation Expense	$ 32,582,297	$ 30,218,827	$ 2,363,470
Adjustment to Refect YE Plant Levels	5,750,141	3,223,757	2,526,384
Total Proforma Depreciation Expense	$ 38,332,438	$ 33,442,584	$ 4,889,854

Docket No. U-35951

Staff Report and Recommendation

WJB Exhibit 3

Taxes Other Than Income Taxes 2014-2020

Exhibit No. 3

Louisiana Public Service Commission
Docket No. U-35951
Atmos Energy Corporation - Louisiana Division
2020 Test Year Rate Stabilization Clause Filing

Taxes Other Than Income Taxes
2014 - 2020

RSC Test Year	Taxes Other Than Income Tax	Ad Valorem	Subtotal	All Other Taxes	Total Taxes Other Than Income Tax
2014	$ (84,424)	$ 9,286,882	$ 9,202,458	$ 1,014,803	$ 10,217,261
2015	1,201,782	9,731,544	10,933,326	1,927,230	12,860,556
2016	867,551	10,851,546	11,719,097	2,000,826	13,719,923
2017	1,368,252	11,596,944	12,965,196	1,830,417	14,795,613
2018	1,659,339	12,873,144	14,532,483	1,903,109	16,435,592
2019	1,996,440	13,842,144	15,838,584	2,123,039	17,961,623
2020	1,953,887	16,345,632	18,299,519	2,016,057	20,315,576

CASE NO. 2021-00214
ATTACHMENT 1
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Staff Report and Recommendation

WJB Exhibit 4

Determination of Rate Base 2014-2020 Test Year RSC Filings

Exhibit No. 4

Louisiana Public Service Commission
Docket No. U-35951
Atmos Energy Corporation
Louisiana Division
Consolidated RSC 2020 Test Year Filing

Determination of Rate Base
2014 - 2020 Test Year RSC Filings

Description	2014	2015	2016	2017	2018	2019	2020
Net Plant							
TLA	$ 148,203,227	$ 175,333,363	$ 200,433,341	$ 220,897,231	$ 245,100,989		
LGS	374,744,165	407,530,319	454,378,483	504,777,860	565,857,653		
Total	522,947,392	582,863,682	654,811,824	725,675,091	810,958,642	922,279,083	1,018,961,969
Construction Work in Progress							
TLA	814,775	386,530	557,339	469,328	3,914,836		
LGS	1,266,143	779,634	688,797	1,112,212	1,073,608		
Total	2,080,918	1,166,164	1,246,136	1,581,540	4,988,444	1,639,184	958,930
Total Net Plant							
TLA	149,018,002	175,719,893	200,990,680	221,366,559	249,015,825		
LGS	376,010,308	408,309,953	455,067,280	505,890,072	566,931,261		
Total	525,028,310	584,029,846	656,057,960	727,256,631	815,947,086	923,918,267	1,019,920,899
Additions:							
Underground Storage							
TLA	2,674,185	2,860,417	2,789,905	2,098,405	1,895,727		
LGS	3,477,128	2,838,907	2,245,347	1,761,508	1,655,415		
Total	6,151,313	5,699,324	5,035,252	3,859,913	3,551,142	4,124,295	4,052,008
Prepayments							
TLA	551,340	644,506	614,781	718,747	748,940		
LGS	1,788,215	1,995,804	1,971,292	2,269,111	2,495,640		
Total	2,339,555	2,640,310	2,586,073	2,987,858	3,244,580	3,897,167	4,104,457
Materials and Supplies							
TLA	118,915	146,927	134,042	64,704	31,068		
LGS	375,708	485,387	348,194	58,242	(23,762)		
Total	494,623	632,314	482,236	122,946	7,306	(283,518)	(40,779)
Cash Working Capital							
TLA	709,771	739,000	773,372	747,994	800,456		

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LGS	2,765,273	2,818,824	2,917,176	2,920,997	2,994,656		
Total	3,475,044	3,557,824	3,690,548	3,668,991	3,795,112	4,036,769	4,051,002
Total Additions To Rate Base							
TLA	4,054,211	4,390,850	4,312,100	3,629,850	3,476,191		
LGS	8,406,324	8,138,922	7,482,009	7,009,858	7,121,949		
Total	12,460,535	12,529,772	11,794,109	10,639,708	10,598,140	11,774,713	12,166,688
Deductions:							
Accumulated Deferred Income Taxes							
TLA	(30,801,279)	(38,027,413)	(45,884,171)	(52,943,145)	(34,461,276)		
LGS	(46,960,140)	(55,890,643)	(68,374,489)	(47,588,035)	(57,582,005)		
Total	(77,761,419)	(93,918,056)	(114,258,660)	(100,531,180)	(92,043,281)	(115,710,218)	(125,667,723)
Regulatory Liability							
TLA	-	-	-	-	(22,250,365)		
LGS	-	-	-	(37,461,403)	(37,354,010)		
Total	-	-	-	(37,461,403)	(59,604,375)	(58,354,518)	(53,245,805)
Customer Advances for Construction							
TLA	(1,136,205)	(1,118,139)	(1,224,204)	(1,231,903)	(1,205,736)		
LGS	(4,019,332)	(3,423,795)	(3,825,549)	(4,865,761)	(5,570,064)		
Total	(5,155,537)	(4,541,934)	(5,049,753)	(6,097,664)	(6,775,800)	(8,473,821)	(8,043,658)
Customer Deposits							
TLA	(1,289,573)	(1,567,733)	(1,231,549)	(858,037)	(719,758)		
LGS	(3,916,586)	(4,596,172)	(3,049,099)	(2,094,818)	(2,077,206)		
Total	(5,206,159)	(6,163,905)	(4,280,648)	(2,952,855)	(2,796,964)	(2,686,836)	(2,444,992)
Injuries and Damages Reserve							
TLA	(289,616)	(271,830)	(353,546)	(348,950)	(583,783)		
LGS	(765,479)	(792,915)	(1,057,831)	(1,013,071)	(1,705,453)		
Total	(1,055,095)	(1,064,745)	(1,411,377)	(1,362,021)	(2,289,236)	(1,696,924)	(1,571,122)
Uncollectible Reserve							
TLA	(1,189,550)	(433,196)	(409,116)	(494,105)	(685,141)		
LGS	(1,858,250)	(908,456)	(807,311)	(796,350)	(806,868)		
Total	(3,047,800)	(1,341,652)	(1,216,427)	(1,290,455)	(1,492,009)	(1,749,715)	(3,788,857)
Total Deductions to Rate Base							
TLA	(34,706,223)	(41,418,311)	(49,102,586)	(55,876,140)	(59,906,059)		
LGS	(57,519,787)	(65,611,981)	(77,114,279)	(93,819,438)	(105,095,606)		
Total	(92,226,010)	(107,030,292)	(126,216,865)	(149,695,578)	(165,001,665)	(188,672,032)	(194,762,157)
Total Rate Base							
TLA	$ 118,365,990	$ 138,692,432	$ 156,200,194	$ 169,120,269	$ 192,585,957		

CASE NO. 2021-00214 ATTACHMENT 1 TO AG DR NO. 1-63

LGS	326,896,845	350,836,894	385,435,010	419,080,492	468,957,604		
Total	$ 445,262,835	$ 489,529,326	$ 541,635,204	$ 588,200,761	$ 661,543,561	$ 747,020,948	$ 837,325,430

CASE NO. 2021-00214
ATTACHMENT 1
TO AG DR NO. 1-63

Service List for Docket No. U-35951
as of 6/15/2021

Commissioner(s)

Craig Greene
Eric Skrmetta
Foster L. Campbell
Lambert C. Boissiere, III.
Mike Francis

LPSC Staff Counsel

Justin Bello, LPSC Transportation Attorney

LPSC Staff

Jessica Kayuha, LPSC Utilities Division
Thomas Broady, LPSC Auditing Division

LPSC Consultant

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Petitioner : **Atmos Energy Corporation**

Don Erickson
Atmos Energy
450 Laurel Street, Suite 2000
Baton Rouge, LA 70801
Email: don.erickson@atmosenergy.com
Fax: ; Phone: (225)376-4605

2021 JUN 28 PM 4:00

LA PUBLIC SERVICE COMMISSION

Shelly M. Bass
Senior Attorney

June 25, 2021

Justin Bello
Staff Attorney
Louisiana Public Service Commission
P.O. Box 91154
Baton Rouge, LA 70821
Via Email

RE: *In Re: LPSC Docket No. U-35951, Atmos Energy Corporation, ex parte. 2020 Rate Stabilization Clause filing for Consolidated Louisiana Division*

Dear Justin:

We have reviewed the LPSC Staff's Report and Recommendation in the above-referenced docket. Per our subsequent discussions and communications with the Staff, Atmos Energy proposed to modify the EDIT amortization to effectively offset the aggregate rate increase resulting from the 2020 RSC model per the terms of the settlement of the RSC Review docket and the tariff attached to that settlement agreement (in lieu of the Staff's proposal to modify the income tax expense adjustment). We provided a revised version of the model that reflects the Staff's position and Atmos Energy's proposed revision to Staff's position, and it is our understanding that the Staff has agreed to this modification as reflected in the revised model provided to Staff on June 22, 2021. For reference, attached is the calculation of rates reflected on Schedule 3 of that model.

To memorialize Atmos Energy's response to the Staff's Report and Recommendation, I am filing a copy of this letter in the above-referenced docket and look forward to working with you next week on a Joint Report and Draft Order to formalize this agreement.

Sincerely,

Shelly M Bass

Shelly M. Bass

Enclosure

EXHIBIT
B

by hand

Atmos Energy, Louisiana Division (Combined Filing)
Calculation of Per Ccf RSC Rates
Customer Charge and Commodity Charge

Line	Juris.	Filing Rate Category	Stat	Revenue at Current Rates: Current (Book)	WNA / Other Adj	Current Adjusted	Current Rates	Current Margin	Increase: Allocation Per Tariff	Rate Change	Revenue at Proposed Rates: Proposed Rates	Proposed Margin	Rate Change: Change in Rates
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)		(j)	(k)	(l)
1													
2	LA	Residential Services (RS)	Bills	4,007,025	0	4,007,025	$18.00	$ 72,126,450	43.9%	$ 1.50	$ 19.50	$ 78,136,988	$ 6,010,538
3			Volume	113,091,924	15,151,854	128,243,778	$ 0.3994	51,220,565	31.1%	$ (0.04687)	$ 0.35253	45,210,027	$ (6,010,538)
4								$ 123,347,015	75.0%			$ 123,347,015	$ -
5													
6		Commercial (CS)	Bills	253,368	0	253,368	$30.00	7,601,040	3.9%	$ 2.25	$ 32.25	$ 8,171,118	$ 57C,078
7			Tier1	55,713,454	0	55,713,454	$ 0.6797	37,868,435	19.4%	$ (0.01580)	$ 0.66390	36,988,162	(880,273)
8			Tier2	5,669,983	0	5,669,983	$ 0.4078	2,312,219	1.2%	$ (0.00948)	$ 0.39832	2,258,468	(53.751)
9			Tier3	1,427,172	3,836,783	5,263,955	$ 0.2040	1,073,847	0.5%	$ (0.00474)	$ 0.19926	1,048,896	(24.951)
10				62,810,609	3,836,783	66,647,392		$ 48,855,541	25.0%			$ 48,466,644	$ (388,897)
11													
12		Commercial Farm and Agricultural Service (FAS)											
13			Bills	848		848	$30.00	25,440			$ 32.25	$ 27,348	$ 1,908
14			Volume	652,956		652,956	$ 0.3788	247,340			0.42965	280,543	33,203
15								$ 272,780				$ 307,891	$ 35,111
16		Commercial Prisons - USP, LCC, WPP, BCC											
17			Bills	848		95	$30.00	2,850			$ 32.25	$ 3,064	$ 214
18			Volume	924,523		924,523	$ 0.4318	399,209			0.47474	438,908	39,699
19								$ 402,059				$ 441,972	$ 39,913
20		Commercial Other - NSU, ULL, SLU, ULM, VA											
21		NSU (Northwestern State)	Bills	323		323	$30.00	9,690			$ 32.25	$ 10,417	$ 727
22			Volume	324,023		324,023	$ 0.1104	35,772			0.21561	69,863	34,091
23								$ 45,462				$ 80,280	$ 34,818
24		ULL (U of L Lafayette)	Bills	1,034		1,034	$30.00	31,020			$ 32.25	$ 33,347	$ 2,327
25			Volume	691,839		691,839	$ 0.0966	66,832			0.20345	140,755	73,923
26								$ 97,852				$ 174,102	$ 76,250
27		ULM/SLU (U of L Monroe/SI	Bills	36		36	$30.00	1,080			$ 32.25	$ 1,161	$ 81
28			Volume	1,490,650		1,490,650	$ 0.1463	218,082			0.24652	367,475	149,393
29								$ 219,162				$ 368,636	$ 149,474
30		Veteran Affairs Hospital	Bills	24		24	$30.00	720			$ 32.25	$ 774	$ 54
31			Volume	910,068		910,068	$ 0.3545	322,619			0.41307	375,922	53,303
32								$ 323,339				$ 376,696	$ 53,357
33		Total Tariff Revenue						$ 173,563,210				$ 173,563,236	$ 26
34													
35		Facility Fee		1,580,195.00		$ 432,025		2,012,220			$ 0.28	2,012,220	-
36		Other Revenue						1,597,811				1,597,811	-
37									Increase				
38		Louisiana Total Revenue						$ 177,173,241	-			$ 177,173,267	$ 26
39													

2021 JUN 28 PM 4:00

PUBLIC SERVICE COMMISSION

CASE NO. 2021-00214
ATTACHMENT 1
TO AG DR NO. 1-63

LOUISIANA PUBLIC SERVICE COMMISSION

DRAFT ORDER NO. U-35951

ATMOS ENERGY CORPORATION, EX PARTE

2020 Rate Stabilization Clause filing for Consolidated Louisiana Division.

(Decided at the Commission's July 14, 2021 Business and Executive Session.)

OVERVIEW

This Commission, having reviewed and considered the Joint Report on Staff's Report and Recommendation ("Joint Report") submitted by the Louisiana Public Service Commission ("LPSC") Staff and Atmos Energy Corporation, consolidated Louisiana Division, ("Atmos") finds said Joint Report to be acceptable and in accordance with the provisions of Atmos' Rate Stabilization Clause ("RSC") authorized in LPSC Order No. U-35535. A copy of the Joint Report, filed into the record on ____________, is attached hereto Attachment A.

The Joint Report indicated that Atmos will not implement a rate increase for the consolidated Louisiana Division.

JURISDICTION

The Commission exercises jurisdiction over public utilities in Louisiana pursuant to Article IV, Section 21(B) of the Louisiana Constitution, which states:

> The commission shall regulate all common carriers and public utilities and have such other regulatory authority as provided by law. It shall adopt and enforce reasonable rules, regulations and procedures necessary for the discharge of its duties, and shall have other powers and perform other duties as provided by law.

COMMISSION CONSIDERATION

This matter was considered at the Commission July 14, 2021 Business and Executive Session. On motion of ______________, seconded by ______________ and unanimously adopted, the Commission approved the Joint Report and Draft Order filed into the record on ______________.

EXHIBIT
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THEREFORE IT IS ORDERED:

That the Joint Report and Draft Order submitted by Staff and Atmos is accepted by this Commission and that Atmos will not implement a rate increase for the consolidated Louisiana Division.

This order is effective immediately.

BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA

DISTRICT II
CHAIRMAN CRAIG GREENE

DISTRICT I
VICE CHAIRMAN ERIC F. SKRMETTA

DISTRICT V
COMMISSIONER FOSTER L. CAMPBELL

DISTRICT III
COMMISSIONER LAMBERT C. BOISSIERE, III

DISTRICT IV
COMMISSIONER MIKE FRANCIS

BRANDON M. FREY
SECRETARY

Service List for U-35951
as of 7/2/2021

Commissioner(s)

Craig Greene

Eric Skrmetta

Foster L. Campbell

Lambert C. Boissiere, III.

Mike Francis

LPSC Staff Counsel

Justin Bello, LPSC Transportation Attorney

LPSC Staff

Jessica Kayuha, LPSC Utilities Division

Thomas Broady, LPSC Auditing Division

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Petitioner : Atmos Energy Corporation

Don Erickson

Atmos Energy

450 Laurel Street, Suite 2000

Baton Rouge, LA 70801

Email: don.erickson@atmosenergy.com

Fax: ; Phone: (225)376-4605

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE
STATE OF MISSISSIPPI**

ATMOS ENERGY CORPORATION
GC123008100

DOCKET NO. 2005-UN-0503

IN RE: STABLE/RATE ANNUAL EVALUATION FOR 12 MONTHS ENDING MARCH 31, 2020

**ORDER APPROVING AND ADOPTING STIPULATION
CONCERNING STABLE/RATE ANNUAL EVALUATION
FOR THE 12 MONTHS ENDING MARCH 31, 2020**

THIS CAUSE came on for consideration in the above referenced matter by the Mississippi Public Service Commission ("Commission"). The Commission finds as follows:

1.

Atmos Energy Corporation ("Atmos Energy" or the "Company") filed with the Commission its Stable/Rate Annual Evaluation for the 12 Months Ending March 31, 2020, on July 1, 2020.

2.

The Mississippi Public Utilities Staff ("Staff") reviewed and evaluated Atmos Energy filing and had the benefit of full discovery as prescribed by Mississippi law and the Commission Rules of Practice and Procedure ("Rules"). Atmos Energy and the Staff met on numerous occasions and, through discussion and negotiations, have stipulated and agreed to a resolution of certain issues relative to the evaluation of Atmos Energy filing.

3.

Pursuant to these discussions and the review and evaluation of the Staff, the parties entered into a Stipulation which was filed with the Commission on September 29, 2020 (the "Stipulation"). A copy of the Stipulation is attached hereto as Exhibit "A".

4.

The Commission has duly considered the pleadings, documentation contained in the file, and other evidence and does hereby find that the Stipulation is just and reasonable and should be approved and adopted.

5.

The Evaluation, with the adjustments agreed upon and subject to the limitations in the Stipulation, is in full compliance with the provisions of Mississippi law and the Stable/Rate tariff of Atmos Energy.

IT IS THEREFORE ORDERED THAT:

1. The Stipulation attached hereto as Exhibit "A" entered into by the parties is just and reasonable and the same is hereby approved and adopted by this Commission.

2. The Stable/Rate Annual Evaluation for the 12 Months Ending March 31, 2020, as amended by and subject to the provisions stated in the Stipulation, is hereby approved, with rates effective November 1, 2020.

This Order shall be effective from and after the date of issuance.

COMMISSION VOTE

Chairman Dane Maxwell voted	Aye X	Nay ____
Commissioner Brent Bailey voted	Aye X	Nay ____
Commissioner Brandon Presley voted	Aye X	Nay ____

SO ORDERED on this, the 6th day of October 2020.

MISSISSIPPI PUBLIC SERVICE COMMISSION

DANE MAXWELL, CHAIRMAN

BRENT BAILEY, COMMISSIONER

BRANDON PRESLEY, COMMISSIONER

ATTEST: A TRUE COPY

KATHERINE COLLIER, EXECUTIVE SECRETARY

Effective this the 6th day of October 2020.

FILED

SEP 29 2020

MISS. PUBLIC SERVICE COMMISSION

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE
STATE OF MISSISSIPPI**

ATMOS ENERGY CORPORATION
GC123008100

DOCKET NO. 2005-UN-503

IN RE: STABLE RATE ANNUAL EVALUATION FOR TWELVE (12) MONTHS ENDING MARCH 31, 2020

JOINT STIPULATION BETWEEN ATMOS ENERGY CORPORATION AND THE MISSISSIPPI PUBLIC UTILITIES STAFF

This Stipulation and Agreement is entered into between the Mississippi Public Utilities Staff ("MPUS" or "Staff") and Atmos Energy Corporation ("Atmos Energy" or "Company") pursuant to Rule 13 of the Mississippi Public Service Commission's ("MPSC" or the "Commission") Rules of Practice and Procedure ("Rules").

1. On July 1, 2020, Atmos Energy filed its Stable/Rate Annual Evaluation for the twelve (12) months ending March 31, 2020 ("July 2020 Stable Rate Filing").

2. On March 2, 2020, Atmos Energy made its fifth annual filing pursuant to the System Integrity Rider ("SIR") ("March 2020 SIR Filing"). On July 1, 2020, Atmos Energy filed its SIR Compliance Tariff Filing and supporting schedules updated to reflect inputs filed contemporaneously in its July 2020 Stable Rate Filing.

3. Atmos Energy's July 2020 Stable Rate Filing is summarized as follows:

Adjusted Rate Base	$475,905,391
Weighted Average Cost of Capital	7.81%
Revenue Adjustment	$8,378,517

4. The MPUS has completed its review of the Evaluation of the July 2020 Stable Rate Filing. The MPUS has had the benefit of full discovery as prescribed by Mississippi law and the

EXHIBIT
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Rules. This Stipulation is entered into as a result of the pleadings and other evidence filed by Atmos Energy in this docket and is supported by the discussions and information exchanged between MPUS and Atmos Energy and the independent research and investigation conducted by MPUS.

5. Atmos Energy and MPUS have met and, through discovery, discussion, and negotiation, have resolved certain issues and the parties do hereby stipulate and agree as follows:

a) Atmos Energy's adjusted rate base without SIR shall be modified from $475,905,391 to $474,215,712 to reflect the capitalized portion of certain Staff adjustments. This reflects a reduction in rate base of $1,689,679.

b) Atmos Energy's adjusted operation and maintenance expenses as amended are reduced by $2,043,170 to $47,077,765. The O&M expense adjustment includes Incentive Compensation of $1,276,171; $16,871 for expenses such as lobbying, memberships, dues, and registrations; $256,253 for business meals and entertainment expenses, and $493,875 for other direct and allocated expenses adjusted by Staff.

c) Additional adjustments include a reduction in interest expense on customer deposits in the amount of $41,448; a reduction in the amortization of debt expense in the amount of $146,951; a reduction in the interest on long term debt in the amount of $22,103; and a reduction in regulatory tax expense and general taxes in the amount of $40,373.

6. Atmos Energy's 2020 Stable Rate Adjustment Evaluation with the adjustments stated above and agreed to by the Company and Staff, attached as Confidential Exhibit A, results in a Revenue Adjustment of $5,856,419.

7. Pursuant to and consistent with the Joint Stipulation between the Company and the Staff in this docket dated October 21, 2019, and the Commission's Order adopting same, this filing reflects a Weighted Average Cost of Capital of 7.81%.

8. The Staff and the Company agree that upon an Order of the Commission adopting this Stipulation, the Company shall make a compliance filing to reflect these modifications in its Stable Rate and SIR tariffs.

OTHER PROVISIONS

9. It is agreed that this stipulation is expressly conditional upon acceptance by the Commission of all of its provisions. It is also specifically understood and agreed that this stipulation is interdependent and non-separable and that if the Commission does not accept this stipulation in its entirety, neither MPUS nor Atmos Energy will be thereafter bound by any of its provisions.

10. Unless specifically agreed to herein, neither MPUS nor Atmos Energy shall be deemed to have approved or acquiesced in any accounting principle, cost of capital methodology, capital structure, rate making principle, valuation methodology, cost of service methodology or determination, depreciation principle or method, rate design methodology or cost allocation that may underlie this Agreement for which provision is made in this Agreement.

11. All provisions of this Stipulation have been agreed upon by and between MPUS and Atmos Energy consistent with the requirements of Atmos Energy's tariff on file with the Commission.

So stipulated, this the 29th day of September 2020.

MISSISSIPPI PUBLIC UTILITIES STAFF

BY: ______________________________
Sally Doty, Executive Director

ATMOS ENERGY CORPORATION

BY: DocuSigned by:
FA85E0BCB4AC4F0...
Mathew Davidson, Vice-President
Rates and Regulatory Affairs

CASE N
ATTACHMENT
TO G DR NO 1-63

EXHIBIT
"A"

CONFIDENTIAL

Atmos Energy Corporation - Mississippi Division
DETERMINATION OF RATEBASE

(1)	(2)	(3)	(4)	(5)
LINE #	RATE BASE	PER BOOK EVALUATION 3/31/20	BEGINNING RATE PERIOD 11/01/20	ENDING RATE PEROID 10/31/21
1	PLANT-IN-SERVICE +	663,140,963	677,510,363	706,189,609
2	GAS PLANT HELD FOR FUTURE USE	0	0	0
3	GAS PLANT ACQUISITION ADJ.	1,235,363	1,235,363	1,235,363
4	NON-CURRENT GAS STORED	6,955,671	6,955,671	6,955,671
5	CONST. WORK-IN-PROGRESS +	15,208,599	15,208,599	15,208,599
6	LESS: ACCUM DEPRECIATION +	158,180,285	157,877,649	156,945,148
7	NET PLANT	528,360,311	543,032,347	572,644,095
	PLUS:			
8	WORKING CAPITAL	8,366,698	8,366,698	8,366,698
8A	WATER HEATER PROGRAM FINANCING	0	0	0
9	INVENTORY: MATERIAL & SUPPLIES	208,869	208,869	208,869
10	INVENTORY: GAS STORED UNDERGROUND	9,114,073	9,114,073	9,114,073
11	TOTAL INVENTORY	9,322,942	9,322,942	9,322,942
12	PREPAYMENTS +	3,456,463	3,456,463	3,456,463
	LESS:			
13	DEFERRED INCOME TAX +	64,437,031	60,560,359	74,325,793
13A	REGULATORY LIABILITY - EDIT	23,909,613	23,404,948	23,096,649
14	CUSTOMER ADVANCES FOR CONST.	0	0	0
15	BAD DEBT RESERVE	375,000	375,000	375,000
15A	INJURY AND DAMAGE RESERVE	535,115	535,115	535,115
15B	VACATION ACCRUALS +	424,997	424,997	424,997
15C	R & D SURCHARGE	267,563	267,563	267,563
16	UNFUNDED POST-RETIREMENT BENEFITS +	19,129,780	19,129,780	19,129,780
17	UNFUNDED PENSION LIABILITY -FASB 87 +	4,923,529	4,923,529	4,923,529
18	RATE BASE	435,503,786	454,557,158	470,711,771
19	AVERAGE RATE BASE FOR PERIOD			462,634,464
20	ADJUSTMENT FOR PRIOR ESTIMATION ERROR			11,581,248
21	ADJUSTED RATE BASE			474,215,712
22	SIR RATE BASE			247,414,396
23	RATE BASE WITH SIR			721,630,108

** See Page 2 of this Appendix.

*** This value is an average if the past 12 months. "+" Includes a Shared Services allocation.

**** Excludes amounts arising from Yazoo Investments merger.

***** Deferred Income Taxes will include only those taxes which are associated with an item actually included in rate base. The deferred income taxes will be calculated in a manner consistent with the tax accounting methods, elections and positions utilized by the Company in preparing its income tax filings. Deferred income taxes reflected in rate base will be sufficient so as to prevent the Company from violating the normalization provisions of the Internal Revenue Code.

CONFIDENTIAL

Atmos Energy Corporation - Mississippi Division

DETERMINATION OF WORKING CAPITAL
12 Months Ended March 2020

LINE #	(1) WORKING CAPITAL	(2) TEST PERIOD	(3) ADJUSTMENTS	(4) ADJUSTED TEST PERIOD
A.	OPERATING & MAINTENANCE EXPENSE	49,189,703	(2,111,938)	47,077,765
B.	RENT OF DIST. PROPERTY	13,105	0	13,105
C.	GENERAL TAXES	21,912,796	(2,070,082)	19,842,714
D.	MISC. INCOME DEDUCTIONS	0	0	0
E.	TOTAL OPERATING EXP.	71,115,604	(4,182,020)	66,933,584
F.	NON-RECOVERABLE LOBBYING EXP.	0	0	0
G.	ALLOWABLE O. & M.	71,115,604	(4,182,020)	66,933,584
	TIMES 1/8 ALLOWANCE	12.50%	12.50%	12.50%
H.	ALLOWED WORKING CAPITAL	8,889,451	(522,753)	8,366,698

Note:
(A) Adjustments only for "known and measurable changes" as defined in the definitions section.

APPENDIX "A"
Page 2
CALCULATION OF EXPECTED RETURN

CONFIDENTIAL

Atmos Energy Corporation - Mississippi Division
Adjustment to Rate Base Calculation

For Prior Estimation Error for Period Ended Twelve Months Prior
to Beginning of Rate Period Current Evaluation

(1) LINE #	(2) ITEMS	(3) ACTUAL BEGINNING RATE BASE 10/31/2019	(4) ACTUAL ENDING RATE BASE 10/31/2020	
1.	PLANT-IN-SERVICE +	744,984,770	823,411,924	
	less negotiated SR disallowances	(1,263,218)	(1,263,218)	
	less SIR exclusions	(106,288,589)	(167,669,388)	
2.	LESS: ACCUM DEPRECIATION +	157,289,387	164,488,432	
	less SIR exclusions	(2,178,305)	(5,256,944)	
	NET PLANT	482,321,882	495,247,830	
	LESS:			
3.	DEFERRED INCOME TAX +	48,582,265	58,338,204	
	EDIT less DTA grossup	25,602,142	24,649,854	
	less SIR exclusions	(1,485,291)	(2,542,680)	
4.		409,622,766	414,802,452	
5.	ACTUAL AVERAGE PLANT LESS ACCUM DEPREC & LESS DEFERRED INCOME TAX			$ 412,212,609
6.	AVG PLANT, A/D & DEF INC TAX PROJECTED IN THE STABLE/RATE EVALUATION MADE TWO FILINGS PRIOR TO THE CURRENT FILING			400,631,361
7.	RATE BASE ADJUSTMENT TO CURRENT EVALUATION			11,581,248

APPENDIX "A" Page 3
CALCULATION OF EXPECTED RETURN

CONFIDENTIAL

Atmos Energy Corporation - Mississippi Division

Determination Of Expected Return

(1) Line	(2) EXPECTED EQUITY RETURN ON RATE BASE	(3) TEST YEAR	(4) ADJUSTMENTS	(5) ADJUSTED TEST YEAR	(6) ADJUSTED TY W/O SIR	(7) SOURCE
1.	OPERATING REVENUE	231,270,821	(21,027,867)	210,242,953	210,242,953	FERC ACCT. 400: 480-499
2.	LESS: GAS PURCHASED FOR RESALE	84,336,746	0	84,336,746	84,336,746	FERC ACCT. 401: 800-813 and 858
3.	MARGIN	146,934,075	(21,027,867)	125,906,208	125,906,208	LINE 1 LESS LINE 2
	LESS:					
4.	OPERATING & MAINTENANCE EXPENSE	49,189,703	(2,111,938)	47,077,765	47,077,765	APPENDIX "A", PAGE 5A
5.	RENT OF DIST. PROPERTY	13,105	0	13,105	13,105	FERC ACCT. 401:881
6.	GENERAL TAXES	21,912,796	(2,070,082)	19,842,714	19,842,714	FERC ACCT 408.1
7.	MISC. INCOME DEDUCTIONS	0	0	0	0	FERC ACCT 426.1 Donations
8.	DEPRECIATION	21,533,258	(2,081,862)	19,451,395	19,451,395	FERC ACCT 403 & 404
9.	AMORT. OF GAS INVESTMENT	0	0	0	0	FERC ACCT 405
10.	AMORT. OF DEBT EXPENSE	548,149	(144,998)	403,151	403,151	FERC ACCT 428 & 428.1 (alloc)
11.	ALLOW. FOR FUNDS USED DURING CONST	(254,682)	0	(254,682)	(254,682)	FERC ACCT 432 (+ alloc from SSU)
11A	AMORT INVESTMENT TAX CREDIT	0	0	0	0	FERC ACCT 411.4
12.	TOTAL OPER. REV. DEDUCTIONS	92,942,329	(6,408,880)	86,533,448	86,533,448	SUM OF LINES 4 THROUGH 11
13.	NET OPERATING INCOME	53,991,747		39,372,759	39,372,759	LINE 3 LESS LINE 12
14.	INTEREST ON LONG TERM DEBT			9,760,318	9,760,318	APPENDIX "A" PAGE 7, LINE 1
	A> Additional Staff expense adjustments			12,674	12,674	See Issues List
15.	INTEREST ON CUSTOMER DEP.			130,098	130,098	APPENDIX "A" PAGE 7, LINE 2b
	A> Additional Staff expense adjustments			(40,985)	(40,985)	See Issues List
16.	TOTAL DEBT EXPENSE			9,862,105	9,862,105	SUM OF LINES 14 & 15
17.	FUNDS AVAIL. FOR INC. TAX AND EQUITY			29,510,654	29,510,654	LINE 13 LESS LINE 16
18.	LESS INCOME TAXES:			6,910,294	6,910,294	EFFECTIVE TAX RATE TIMES LN 17
18A.	PROJECTED AFTER-TAX RETURN ON EQUITY FROM SIR			14,162,990	N/A	SIR Projected Annual End of Period return on investment (SIR G1 line 7)
19.	ADJ. INCOME AVAILABLE FOR EQUITY			36,763,350	22,600,360	LN 17 LESS LN 18 PLUS LN 18A
20.	RETURN ON EQUITY RATEBASE					LN 19 / BY APNDX "A", P. 1 LN 23 FOR COL 5 OR LN 21 FOR COL 6 TIMES APNDX "A", P. 7 LN 5

Note:
(A) Adjustments only for "known and measurable changes" as defined in the definitions section.

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DETAIL OF KNOWN AND MEASURABLE CHANGES:

Line			
A.	ANNUALIZED PRIOR ADJUSTMENT		
1.	ADJUSTABLE ANNUAL REVENUE FROM THE TEST PERIOD		53,155,756
2.	MOST RECENT AUTHORIZED STABLE RATE FACTOR MINUS 1		1.08449
3.	ANNUALIZED STABLE RATE REVENUE FROM MOST RECENT EVALUATION		57,646,886
	LESS:		
4.	ACTUAL STABLE RATE REV COLLECTED IN THE TEST PERIOD		54,916,088
5.	ADJ. TO ANNUALIZE REVENUE FROM MOST RECENT STABLE RATE FACTOR		2,730,798
	LESS:		
6.	MUNICIPAL FRANCHISE TAX	1.75%	47,789
7.	***ANNUALIZED PRIOR ADJUSTMENT***		$ 2,683,009
B.	OTHER KNOWN AND MEASURABLE CHANGES		

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Schedule of Test Period Known & Measurable Adjustments

Line	Section	Description		KNOWN AND MEASURABLE CHANGES	TOTAL ADJUSTMENTS	EXPLANATION OF ADJUSTMENTS
1						
2	1.	OPERATING REVENUE				
3		*A> Annualized Prior Adjustments*		2,683,009	2,683,009	Annualized Prior Adjustment - Appendix A p 6.
4		*B> Margin adjustment - SIR*		(23,180,922)	(23,180,922)	remove amounts related to SIR from March balances
5		*C> Margin adjustment - Energy Efficiency Rider*		(567,695)	(567,695)	remove revenue derived from the Energy Efficiency Rider a/o 3/2C
6		*D> Large Customer Activity Net Gain or Loss*		37,740	37,740	reflect revenue impact of large company changes
7						
8		TOTAL ADJUSTMENTS TO REVENUE	0	(21,027,867)	(21,027,867)	
9						
10	2.	LESS: GAS PURCHASED FOR RESALE				
11		*A>*			0	
12		TOTAL ADJ. TO GAS PURCHASES	0	0	0	
13						
14	3	(left blank as a placeholder)				
15						
16	4	ADJ to OPERATING & MAINTENANCE EXPENSE				
17		*A> Spousal travel / gifts / club dues*		(16,241)	(16,241)	Subaccts 05412 Dependent Travel & 05416 Nondeductible Dues
18		*B> Expense Adjustment*		(150,000)	(150,000)	Miscellaneous Expense Adjustment pending additional review
19		*C> Non-recoverable Advertising*		(60,533)	(60,533)	Appendix D - - Advertising
20		*D> Adj Bad Debt exp to reflect actual write offs*		(71,641)	(71,641)	a/c 904 Bad Debt Exp timing diff
21		*E> Energy Efficiency Rider expense*		0	0	remove expense related to the Energy Efficiency Rider
22		*F> charitable contributions recoverable under Rule 29, Section 107.4*		229,648	229,648	
23		*G> Additional Staff expense adjustments - Expense Review*		(525,494)	(525,494)	see Issues List
24		*H> Additional Staff expense adjustments - Charitable Contribs*		(229,648)	(229,648)	see Issues List
25		*I> Additional Staff expense adjustments - Lobbying*		(7,366)	(7,366)	see Issues List
26		*J> Additional Staff Adjustments - Bonus and IDI*		(4,491)	(4,491)	see Issues List
27		*J> Additional Staff Adjustments -Incentive Comp*		(1,276,171)	(1,276,171)	see Issues List
28		TOTAL ADJUSTMENTS TO O&M EXPENSE	0	(2,111,938)	(2,111,938)	
29						
30	5.	RENT OF DIST. PROPERTY				
31		*A>*			0	
32		TOTAL ADJ. TO RENT OF DIST PROP	0	0	0	
33						
34	6.	GENERAL TAXES				
35		*A> State Regulatory Tax - Adjust Accrual for test yr rev.*		28,892	28,892	
36		*B> Reduce franchise tax for margin adjustments*		(367,988)	(367,988)	
37		*C> Adjust to Projected Property Taxes*		1,623,770	1,623,770	
38		*E> Adjust for SIR property taxes from the test year*		(3,320,280)	(3,320,280)	remove amounts related to SIR from March balances
39		*F> Additional Staff expense adjustments*		(34,477)	(34,477)	
40		TOTAL ADJUSTMENTS TO GENERAL TAXES	0	(2,070,082)	(2,070,082)	
1	7.	MISC. INCOME DEDUCTIONS				
2		*A>*			0	
3		TOTAL ADJUSTMENTS MISC. INC. DEDUCTIONS	0	0	0	
4						
5	8.	DEPRECIATION				
6		*A> Adjustment for chg in depreciable property*		1,548,850	1,548,850	adjust from March per books to projected amounts
7		*C> Adjust for SIR for the test year*		(3,630,712)	(3,630,712)	remove amounts related to SIR from March balances
8		TOTAL ADJUSTMENTS TO DEPRECIATION	0	(2,081,862)	(2,081,862)	
9						
10	9.	AMORTIZATION OF GAS INVESTMENT				
11		*A>*			0	
12		TOTAL ADJUST. TO AMORT. GAS INVESTMENT	0	0	0	
13						
14	10.	AMORT. OF DEBT EXPENSE				
15		*A>*		(144,998)	(144,998)	
16		TOTAL ADJUST. TO AMORT OF DEBT EXP.	0	(144,998)	(144,998)	
17						
18	11.	ALLOW. FOR FUNDS USED DURING CONST.				
19		*A>*			0	
20		*B>*			0	
21		TOTAL ADJUST. TO AFUDC	0	0	0	
22						
23	12	AMORT. OF INVESTMENT TAX CREDIT				
24		*A>*				
25		TOTAL ADJUST. TO ITC	0	0	0	

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COST OF CAPITAL DETERMINATION

LINE #	TYPE OF CAPITAL	PERCENTAGE OF CAPITAL	CAPITAL ALLOCATED RATE BASE	ACTUAL INTEREST RATE & EQUITY RET.	DEBT* & EQUITY COST
	LONG TERM DEBT				
1.	TOTAL LONG TERM DEBT				
	OTHER DEBT				
2	CUSTOMER DEPOSITS				
3.	TOTAL DEBT				
	EQUITY				
4.	COMMON EQUITY **				
5.	TOTAL EQUITY				
6.	TOTAL CAPITALIZATION				

Long term debt is accounts 181, 189, and 221 through 226 (sub-accounts related to zero interest notes if applicable).
Customer deposits is account 235.
Common equity is accounts 201 through 217, (excludes Yazoo Investment merger adjustment).
Percent of Capital balances are determined as of the end of the Test Period.

The Customer Deposit percentage of capital shall be equal to the ratio of Mississippi Customer Deposits to Rate Base. The Long Term Debt and Equity percentages shall be based on the Company's consolidated capital amounts.

*Derived by actual interest rate and equity return times allocated rate base.
**Excludes amounts arising from Yazoo Investment merger.

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NOTE: This filing includes an ROR of 7.81% based upon the Joint Stipulation in this docket dated 10/21/19. All inputs to the ROR in this Evaluation Report are for illustrative purposes only and do not reflect actuals.

LINE	**Determination of Revenue Adjustment**	Including SIR	Excluding SIR
A.	EXPECTED RETURN ON EQUITY (AFTER ADJ.)		
B.	PERFORMANCE BASED BENCHMARK RETURN		
C.	DIFFERENCE PBBR/ER		
D.	RATE BASE--EQUITY PORTION		
E.	CHANGE IN EQUITY REV. FOR REQUIRED RETURN		
F.	TAX EXPANSION		
G.	Amortization of Excess ADIT	(308,298)	(308,298)
H.	TOTAL REVENUE CHANGE REQUIRED	**5,875,303**	**5,856,419**

	Minimum Threshold Test (+/-)	250,000	250,000
I.	Revenue Change only if exceeds the Threshold	5,875,303	5,856,419
J.	Revenue Change only if exceeds the Threshold with SIR Includec	NA	5,856,419

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LINE

CALCULATION OF REVENUE ADJUSTMENT

FOUR PERCENT TEST

K.	ACTUAL GROSS REVENUE FROM TEST PERIOD	231,270,821
L.	FOUR PERCENT OF GROSS REVENUE	9,250,833
M.	NET ADJUSTMENT ALLOWED WITHOUT HEARING	**5,856,419**

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TAX EXPANSION FACTOR

Line #			
1	GROSS REQUIREMENT		1.0000
2	MUNICIPAL FRANCHISE TAX RATE		0.0175
3	Ln 1 - 2		0.9825
4			
5	STATE INCOME TAX (5% X Ln 3)	5.0%	0.049
6	Ln 3 - 5		0.9334
7			
8	FEDERAL INCOME TAX (21% X Ln 6)	21.00%	0.1960
9	Ln 6 - 8		0.7374
10			
11	Expansion Factor		0.7374

NOTE: Tax Rates Subject To Change.
Effective Municipal Franchise Tax Rate Recalculated Each Evaluation.

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DETERMINATION OF FACTOR APPLIED TO RATES TO ACHIEVE REQUIRED REVENUE CHANGE

CALCULATION OF TEST PERIOD REVENUE

Line #	Revenue Month	(1) ACTUAL COLLECTION	(2) EFFECTIVE RATE	(3) ADJUSTABLE REVENUE
1.	04/2019	4,267,184	0.95508	4,467,882
2.	05/2019	3,194,760	0.95508	3,345,018
3.	06/2019	2,527,138	0.95508	2,645,996
4.	07/2019	2,461,380	0.95508	2,577,146
5.	08/2019	2,422,569	0.95508	2,536,509
6.	09/2019	2,435,333	0.95508	2,549,873
7.	10/2019	2,845,647	0.95508	2,979,486
8.	11/2019	4,458,465	1.08449	4,111,116
9.	12/2019	6,706,607	1.08449	6,184,111
10.	01/2020	8,866,539	1.08449	8,175,768
11.	02/2020	8,069,730	1.08449	7,441,037
12.	03/2020	6,660,737	1.08449	6,141,815
13.	Total	54,916,088		53,155,756
14.	Current Net Adjustment Allowed			5,856,419
15.	Annualized Stable Rate Revenue from most recent Evaluation			57,646,886
16.	Net Annual Change to Base Revenue			63,503,305
17.	Rate Adjustment Factor		1.00000	2.19466

The rate adjustment factor will be applied to the adjustable rate revenue in the next rate period.

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Summary of Performance Indicators

The score used for the Customer Satisfaction Indicator falls between 0 and 10.

III. Weighting

Company's scores on the Performance Indicator are weighted and averaged as follows:

Line #	Performance Indicator	Performance Score	X	Weight	=	Weighted Score
1.	Customer Price	10.00	x	0.75	=	7.50
2.	Customer Satisfaction	10.00	x	0.25	=	2.50
3.	Company's Performance Score (CPS)					10.00
4.					x	0.10
5.						1.00
6.					-	0.50
7.	Company's Performance Adjuster (PA)					0.50

The Company's Performance Adjuster (PA) is calculated as follows:

(CPS X .10) - .50 = PA