

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ATMOS)	CASE No.
ENERGY CORPORATION FOR AN ADJUSTMENT)	2024-00276
OF RATES; APPROVAL OF TARIFF REVISIONS;)	
AND OTHER GENERAL RELIEF)	

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

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

Respectfully submitted,

RUSSELL COLEMAN
ATTORNEY GENERAL



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Certificate of Service and Filing

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

This 24th day of February, 2025



Assistant Attorney General

Electronic Application of Atmos
Energy Corporation for an Adjustment of Rates
Case No. 2024-00276
Attorney General's Responses to Data Requests of Kentucky Public Service Commission Staff

WITNESS / RESPONDENT RESPONSIBLE:
LANE KOLLEN

QUESTION No. 1
Page 1 of 1

Refer to Amended Testimony of Lane Kollen, page 9. State whether you included any NOLC DTAs not allocated to Kentucky in your adjustment calculations. If so, state why.

RESPONSE:

Mr. Kollen was unable to directly calculate the NOLC DTA based on the Kentucky division's standalone taxable income and losses on a per books or regulated only basis prior to tax year 2022 because the Company failed to provide the information necessary to make these calculations in response to AG discovery. As a result, Mr. Kollen had to rely on the Company's allocation using a general corporate allocation factor on the NOLC DTA prior to tax year 2022. This allocation necessarily includes the effects of the taxable income and losses of all other AEC utility divisions, unregulated activities or disallowed costs incurred by those divisions, and all temporary differences unrelated to tax depreciation and book depreciation in all years prior to tax year 2022. Refer to the direct testimony of Mr. Kollen at 8-9.

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WITNESS / RESPONDENT RESPONSIBLE:
LANE KOLLEN

QUESTION No. 2
Page 1 of 1

Refer to Amended Testimony of Lane Kollen, page 43. State the time frame for Aldyl-A pipeline replacement required by PHMSA, citing relevant regulations.

RESPONSE:

Mr. Kollen is not aware of a specific time frame for Aldyl-A or any other pipeline material replacement. The replacement and timeline to replace pipelines of any material are based on the utility's assessments of condition and risk.

WITNESS / RESPONDENT RESPONSIBLE:
RANDY FUTRAL

QUESTION No. 3
Page 1 of 1

Refer to Testimony of Randy A. Futral, page 8.

- a. State whether and how you factored in increases in overtime or contractor labor to offset vacant positions.
- b. If you did not factor in increases in overtime or contractor labor to offset vacant positions, explain why.

RESPONSE:

Mr. Futral did not factor in changes to overtime and contractor labor expense as there is no indication in the Company's filing that overtime and contractor labor expense were lowered in the test year compared to recent history to coincide with the large increases in the straight time labor expense resulting from full employment in the test year. Refer to the Company's Schedule G-2, line 3, which provides the overtime hours for several historic years as well as the overtime hours assumed in the base year and the test year. Overtime hours for years starting 2020 are depicted on Schedule G-2 as follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Base Year</u>	<u>Test Year</u>
Overtime Hours	18,741	18,062	25,288	29,186	29,969	29,969

There is a small increase in overtime hours projected in the base year and test year compared to prior years, which is counter intuitive. Mr. Futral would expect overtime hours to decrease with the hiring of vacant positions to a level of full employment.

Mr. Futral is not aware that the Company forecast a reduction in contractor labor expense in the test year to coincide with the increase in payroll expense forecast in the test year. The Company was asked to explain all reasons for the increase in payroll expense in the test year in discovery questions AG 1-74 and AG 2-02 and did not mention a corresponding projected decrease in contractor labor expense in its filing. The Company's responses to AG 1-74 and AG 2-02 were duplicated as Mr. Futral's Exhibit RAF-2 and Exhibit RAF-4, respectively.

WITNESS / RESPONDENT RESPONSIBLE:
RANDY FUTRAL

QUESTION No. 4
Page 1 of 1

Refer to Testimony of Randy A. Futral, page 20. State the reason for your recommendation of a 50/50 split of Director's & Officer's insurance and Board of Directors compensation and retirement expenses between ratepayers and shareholders as opposed to a different ratio, and identify any other Commission cases or cases in other jurisdictions involving Atmos that support the adjustment.

RESPONSE:

Mr. Futral's recommendation is based on an equitable equal sharing of responsibility of these costs between ratepayers and shareholders. Mr. Futral is aware that an equal sharing of such expenses has been approved in other jurisdictions and is not aware of a different percentage of sharing that has been approved. Atmos has three divisions that are regulated by the Railroad Commission of Texas ("RRC"), the West Texas Division, the Mid-Texas Division and the Atmos Pipeline Division. The RRC authorized a 50%/50% sharing of these two types of expenses, as well as Investor Relations expenses, in a recent case involving Texas Gas Service Company.¹ Mr. Futral understands that this was the last fully litigated base rate case by the RRC. The 50%/50% sharing of these corporate level expenses has been deemed precedent in the testimonies of multiple intervenor and staff witnesses filed since the cited case, including Mr. Futral. Since January 18, 2023, several base rate cases have been settled and most of the settlement agreements have included a term for this 50%/50% sharing upon the insistence of the RRC Staff. J. Kennedy and Associates, Inc. is currently involved in a base rate case applicable to the West Texas Division of Atmos.² Intervenor and Staff testimonies were filed in that case in early February 2025, recommending the 50%/50% sharing of such expenses supported by RRC precedent. That case is still in progress. Mr. Futral is not aware that another Atmos base rate case has been adjudicated since the Texas Gas Service Company case decided in January 2023.

¹ *Statement of Intent of Texas Gas Service Company, a Division of One Gas, Inc., to Change Gas Utility Rates within the Unincorporated Areas of the West Texas Service Area, North Texas Service Area, and the Borger Skellytown Service Area*, OS-22-00009896, Final Order at FOF No. 74 (Jan. 18, 2023).

² Case No. OS-24-00018879.

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WITNESS / RESPONDENT RESPONSIBLE:
RANDY FUTRAL

QUESTION No. 5
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Refer to Testimony of Randy A. Futral, page 25. State whether you recommend further updating the composite allocation factors based on the base period update.

RESPONSE:

Mr. Futral does not recommend further updating the composite allocation factors based on the base period update. The actual Fiscal Year 2025 allocations are currently based on the updated of allocation factor parameters as of the end of Fiscal Year 2024, which was September 30, 2024. Those actual allocation factors used to record the allocation of costs amongst the Atmos divisions will not be updated again until the books are closed as of the end of Fiscal Year 2025, which will be September 30, 2025. The base period updates in this proceeding affect only the Kentucky/Mid States division and do not provide updates for the other Atmos divisions used in the allocation factor determination process.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 6
Page 1 of 1

Refer to the Direct Testimony and Exhibits of Richard A. Baudino (Baudino Direct Testimony), page 14, lines 8–11.

- a. Explain whether a proxy group of seven natural gas distribution utilities represents a large enough representative sample on which to derive statistically significant ROE estimates.
- b. In addition to using gas utilities, explain whether using water utilities as additional proxy companies would be appropriate in the DCF and CAPM analyses and, if not, explain why.

RESPONSE:

- a. In this case, Mr. Baudino determined that a group of seven companies was a sufficiently representative sample on which to derive reliable and robust ROE estimates for Atmos. This determination was based on his analysis of the data sources used and the results produced by the DCF and CAPM models.
- b. Water utilities have their own unique set of risks that set them apart from gas distribution companies. In this case, Mr. Baudino did not consider it appropriate to include water utilities in his proxy group for purposes of estimating the ROE for Atmos.

WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 7
Page 1 of 1

Refer to the Baudino Direct Testimony, page 26, lines 9–13. Explain why it is appropriate to use 20-year treasury bonds to determine the historical market risk premium, but use 30-year Treasury bonds to determine the risk free rate.

RESPONSE:

The 20-Year Treasury Bond yield is used by Kroll as the risk-free rate in its Cost of Capital Navigator service. Thus, Mr. Baudino used that yield to calculate the historical risk premium from the data provided by Kroll.

The 30-Year Treasury Bond yield is commonly used as a proxy for the risk-free rate in CAPM analyses, as it tends to be more stable than a short-term Treasury bill rate.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 8

Page 1 of 1

Refer to the Baudino Direct Testimony, page 4. Explain how a 52.5 percent common equity ratio was derived from Columbia Gas of Kentucky and Delta Gas Company. Explain why the Attorney General did not recommend using the average common equity ratio of the proxy group.

RESPONSE:

Mr. Baudino recommended a 52.5% common equity ratio as being consistent with recent common equity ratios filed by Kentucky gas utilities. Please refer to page 36 of Mr. Baudino's Direct Testimony for more discussion of the common equity ratios filed by Columbia Gas of Kentucky and Delta Gas Company. In addition, Mr. Baudino recommended 52.5% as an interim move toward the proxy group average common equity ratio.

Please refer to Mr. Baudino's explanation of why he recommended the 52.5% common equity ratio on page 36 of his Direct Testimony. Given the Commission's Order in Case No. 2021-00214 as well as the proxy group average common equity ratios presented in Table 2, Mr. Baudino agrees that it would be reasonable for the Commission to further reduce the common equity ratio for Atmos to 50% in this case.

AFFIDAVIT

STATE OF GEORGIA)

COUNTY OF FULTON)

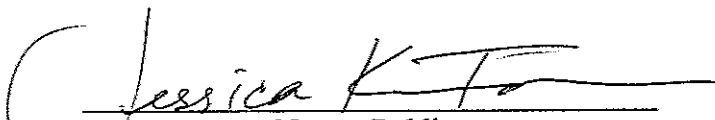
RICHARD A. BAUDINO, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.



Richard A. Baudino

Sworn to and subscribed before me on this

24th day of February, 2025.


Notary Public

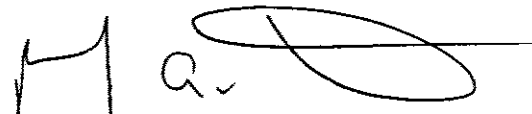
Jessica K Inman
NOTARY PUBLIC
Cherokee County, GEORGIA
My Commission Expires 07/31/2027

AFFIDAVIT

STATE OF GEORGIA)


COUNTY OF FULTON)

RANDY A. FUTRAL, being duly sworn, deposes and states: that the attached are his sworn responses and that the statements contained are true and correct to the best of his knowledge, information and belief.



Randy A. Futral

Sworn to and subscribed before me on this
24th day of February 2025.



Notary Public

Jessica K Inman
NOTARY PUBLIC
Cherokee County, GEORGIA
My Commission Expires 07/31/2027

AFFIDAVIT

STATE OF GEORGIA)


COUNTY OF FULTON)

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


Lane Kollen

Sworn to and subscribed before me on this
24th day of February 2025.

Jessica K Inman
NOTARY PUBLIC
Cherokee County, GEORGIA
My Commission Expires 07/31/2027


Notary Public