

April 18, 2025

Ms. Linda C. Bridwell, P.E.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

*Re: In the Matter of: Electronic Application of Atmos Energy Corporation for
an Adjustment of Rates; Approval of Tariff Revisions; and Other General Relief-*
Case No. 2024-00276

Dear Ms. Bridwell:

Please find attached Atmos Energy Corporation's Responses to Commission Staff's Fourth Request for Information in the above styled case.

This is to certify that the foregoing electronic filing was transmitted to the Commission on April 18, 2025; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085, no paper copies of this filing will be made.

If you have any questions, please let me know.

Very truly yours,



L. Allyson Honaker

Enclosure

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY


ELECTRONIC APPLICATION OF ATMOS
ENERGY CORPORATION FOR AN
ADJUSTMENT OF RATES; APPROVAL OF
TARIFF REVISIONS; AND OTHER
GENERAL RELIEF

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Case No. 2024-00276

CERTIFICATE AND AFFIDAVIT

The Affiant, Joe T. Christian, being duly sworn, deposes and states that the attached responses to Commission Staff's fourth request for information are true and correct to the best of his knowledge and belief.



Joe T. Christian

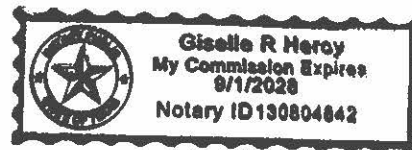
STATE OF TEXAS
COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Joe T. Christian on this the 14th day of April, 2025.



Notary Public

My Commission Expires: September 1, 2028



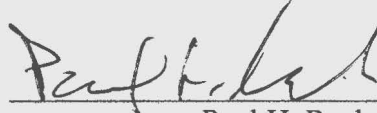
BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

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

CERTIFICATE AND AFFIDAVIT

The Affiant, Paul H. Raab, being duly sworn, deposes and states that the attached responses to Commission Staff's fourth request for information are true and correct to the best of his knowledge and belief.



Paul H. Raab

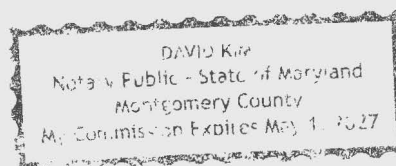
STATE OF MARYLAND
COUNTY OF MONTGOMERY

SUBSCRIBED AND SWORN to before me by Paul H. Raab on this the 12 day of April, 2025.



Notary Public

My Commission Expires: May 1, 2027



BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

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

CERTIFICATE AND AFFIDAVIT


The Affiant, Brannon C. Taylor, being duly sworn, deposes and states that the attached responses to Commission Staff's fourth request for information are true and correct to the best of his knowledge and belief.



Brannon C. Taylor

STATE OF TEXAS
COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Brannon C. Taylor on this the 14th day of April, 2025.



Notary Public
My Commission Expires: September 1, 2028

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-01
Page 1 of 1

REQUEST:

Refer to the Application, Volume 2, Proposed Tariff Sheets, Attachment 1, unnumbered page 39. Also, refer to the Direct Testimony of Paul H. Raab (Raab Direct Testimony), page 20, lines 16-17. Reconcile the differences in the proposed customer charges for Residential Sales Customers and Non-Residential Sales Customers.

RESPONSE:

The correct value for the proposed customer charges for Residential Sales Customers should be \$25, as indicated in the Proposed Tariff Sheets. The correct value for the proposed customer charges for Non-Residential Sales Customers should be \$75, as indicated in the Proposed Tariff Sheets.

Respondents: Paul Raab and Brannon Taylor

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-02
Page 1 of 2

REQUEST:

Refer to the Application, the Direct Testimony of Brannon C. Taylor, Exhibit BCT-3.

- a. Provide an update to the Exhibit with the most current information available. Also, include a row for Atmos's proposed residential rates while removing the Gas Cost Adjustment (GCA) per Mcf column.
- b. Provide the updated Exhibit in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

RESPONSE:

See Attachment 1. The Company has updated the data to show:

1. Current rates including GCAs
2. Current rates with GCAs removed
3. Atmos Energy's proposed residential rates with GCAs removed

Atmos Energy also included its current R&D rider per Mcf in the analysis as well as its current PRP rates that are in place subject to refund.

Note that the analysis, with the GCAs removed, shows the significant difference between Atmos Energy's residential rates in comparison to the other major Kentucky LDCs. Atmos Energy's current average annual bill without the GCA is approximately \$356, and the next closest LDC is approximately \$595.

Also note that were the Company to be granted its entire revenue request in this case as proposed, the Company's residential rates would still be the lowest in Kentucky amongst the major LDCs.

The Company's low rates, in comparison to other LDCs, are a combination of several items, including but not limited to the growth the Company has been able to capture as a partner to economic development in the region, its strong balance sheet (39% debt / 61% equity) that enables the Company to achieve low long-term debts costs, as well as its process in managing efficient O&M and capital spending.

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Question No. 4-02
Page 2 of 2

Finally, the Company notes that its proposed rates in comparison to its proxy Kentucky LDCs includes its actual equity common ratio as filed in this case, which is known and measurable. The use of the utility's actual equity common ratio has long been the standard of the Commission until recently¹, and the Company's rates with its actual, known and measurable capital structure are significantly lower than other Kentucky LDCs as shown in Attachment 1, due in part to its strong balance sheet. The Company also notes that the use of actual capital structure has also been argued as recently as 2023 by the Office of Attorney General as the standard for fair, just and reasonable rates when a hypothetical capital structure has been proposed.²

ATTACHMENT:

Staff_4-02_Att1 - Exhibit BCT-3 updated

Respondent: Brannon Taylor and Joe Christian

¹ Case No. 2004-00426, *The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of its 2004 Compliance Plan for Recovery by Environmental Surcharge* (Ky. PSC June 20, 2005), Order at 20 ("The Commission is not persuaded by KIUC's arguments. In determining the reasonable capital structure in either an environmental surcharge or base rate case, the Commission normally does not establish the common equity ratio using the approach followed by rating agencies but instead utilizes the actual common equity ratio of the utility. Unlike the approach used in a rate of return on common equity analyses, the Commission does not determine the capital structure or common equity ratio of a utility based on the capital structures or ratios of other comparable utilities. KIUC has provided no compelling evidence documenting that KU or its corporate parent LG&E Energy LLC intentionally increased KU's common equity ratio. Contrary to KIUC's mischaracterization, the Commission has never utilized or established a hypothetical capital structure for the environmental surcharges authorized for KU, LG&E, Big Rivers, or East Kentucky.); Case No. 8734, *Adjustment of Rates of Kentucky Power Company* (Ky. PSC Oct. 31, 1983), Order at 5 ("[T]he use of a hypothetical capital structure does not alter the actual amount of debt Kentucky Power has outstanding or increase its common equity. Investors look at actual capital ratio when assessing the financial risk of a company.");

² Case No. 2022-00432, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates* (Ky. PSC Oct 27. 2023), Attorney General's Post-Hearing Brief ("The Company has failed to provide evidentiary support that the costs as issue are actually equity and not debt...The Commission provided shareholders with an opportunity to earn a return on their investment, but the Commission also has an obligation to ensure that ratepayers are only required to pay fair, just, and reasonable rates. Witness D'Ascendis's failure to address the rate impact of the Company's preferred hypothetical structure is important. If a capital structure is not based on actual costs, but instead allows the affiliated companies to earn a windfall exceeding the return of investments plus a reasonable return, the rates supporting that capital structure are not fair, just, and reasonable.")

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-03
Page 1 of 1

REQUEST:

Refer to the Application, Raab Direct Testimony, page 3, lines 8-10. Explain whether the Demand-Only or the Energy/Demand study or both utilized the “minimum system” approach.

RESPONSE:

Neither the Demand-Only nor the Energy/Demand CCOS study utilize the “minimum system” approach to classifying investments in distribution mains. The Demand-Only study classifies investments in mains and related expenses as 100% demand-related. The Energy/Demand study classifies investments in mains and related expenses as 62% demand-related and 38% energy-related, based on the average and excess demand approach, consistent with the methodology proposed by the Attorney General in Case No. 2013-00148.

Respondent: Paul Raab

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-04
Page 1 of 2

REQUEST:

Refer to the Application, the Raab Direct Testimony, page 3, lines 8-21. Also, refer to the Commission's May 19, 2022 final Order in Case No. 2021-00214, page 51,¹ regarding the Commission's rejection of Atmos' Customer/Demand study. Explain why Atmos decided to include a Customer/Demand study in its current rate case filing.

RESPONSE:

A Customer/Demand study developed using the minimum system approach is included in The Company's current rate filing because strict adherence to the Commission's May 19, 2022 final Order in Case No. 2021-00214 would have resulted in the Commission having less information on which to rely on make determinations regarding revenue allocation and rate design in this case. Instead of limiting information available to the Commission, the Company chose to provide a range of cost-of-service results using three generally recognized approaches for the purpose of making determinations regarding revenue allocation and rate design. To the extent that the Commission disagrees with the value of any of these approaches or how the results within each were developed, it can simply ignore the results of that approach with which it disagrees and develop its preferred alternative class allocation results.

While the Company would concede that it may have provided more information than the Commission stated in Case No. 2021-00214 that it needed to make revenue allocation and rate design decisions in this case (solely the Demand-Only study), such an approach appears to be preferable to the Company and past Commission precedent to an approach where only the results of one alternative are provided and the alternative that produced those results is defended as if it were the only viable approach to classifying distribution investments in mains. The approach of multiple-methodology studies appears to be the long-standing precedent of the Commission with the exception of Case No. 2021-00214.

In Case No. 2018-00281, the Commission noted that the three COSSs filed are acceptable to use as a guide in setting rates for Atmos. In Case No. 2013-00148, the Commission also found the methodology used by Atmos Energy to be reasonable and, with a greater amount of detail included so that the functionalization and classification could be seen, represents an acceptable starting point in determining rate design.²

The Commission's viewpoint on COSSs and the desire for multiple methodologies appears to be long-standing back to the 1980s, with the exception of Case No. 2021-00214. As the Commission noted in Case No. 2013-00148 in discussing the desire to see multiple-methodology COSSs:

¹ Case No. 2021-00214, Electronic Application of Atmos Energy Corporation For An Adjustment Of Rates (Ky. PSC May 19, 2022), Order at 51.

² Case No. 2013-00148 (Ky. PSC April 22, 2014) final Order at 34.

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Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-04
Page 2 of 2

*"Atmos-Ky. stated that "[b]oth approaches utilize traditional and accepted classification and allocation methods and yet produces widely divergent results of the 'cost of service.'" It was for this reason that, In Case no. 10201, the Commission encouraged Columbia to submit multiple-methodology COSSES in its future rate proceedings. The Commission reaffirmed this position in Case No. 90-013 when it encouraged Atmos-Ky's predecessor, Western, as well as other utility companies and intervenors, to file well-documented alternative and multiple-methodology COSSES to provide additional information for rate design. We continue to believe that such an approach to to COSSES is appropriate and beneficial. Hence, the Commission strongly encourages Atmos-KY. to file multiple methodology COSSES in future rate cases in order to give the Commission a range of reasonable results for use in determining revenue allocation and rate design."*³

With the Commission's long history of wanting to see multiple-methodology approaches and its past acknowledgement that different COSSSs can produce wildly divergent results, the Company filed multiple-methodology COSSSs in order to provide the Commission with additional information if needed and in line with long-standing prior Commission precedent.

Respondent: Paul Raab

³ Case No. 2013-00148 (Ky. PSC April 22, 2014) final Order at 34

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Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-05
Page 1 of 1

REQUEST:

Refer to the Application, Raab Direct Testimony, page 3.

- a. Explain if Atmos performed a zero-intercept study in preparation of its rate case filing.
- b. If so, provide the zero-intercept study and explain why it was not included in the application.
- c. If a zero-intercept study was not performed, explain why Atmos decided against performing that type of study.

RESPONSE:

- a. Atmos Energy did not perform a zero-intercept study in preparation of its rate case filing.
- b. Not applicable.
- c. Atmos Energy did not prepare a zero-intercept studies in the current filing because the results of such a study have not been reliable in the past (Case Nos. 2017-00349, 2018-00281, and 2021-00214) and the Company could not defend them.

Respondent: Paul Raab

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-06
Page 1 of 1

REQUEST:

Refer to the Application, Raab Direct Testimony, page 4, lines 5-13, regarding the Energy/Demand study. Also, refer to Case No. 2021-00214, Application, Direct Testimony of Paul H. Raab, page 4, lines 9-17, regarding the Demand/Commodity study.

- a. Provide a detailed description of the differences and similarities between the Demand/Commodity study and the Energy/Demand study provided in the applications.
- b. Explain why Atmos decided to perform an Energy/Demand study in this proceeding.

RESPONSE:

- a. There is no difference, other than updated cost values, between the Demand/Commodity study referenced in the Case No. 2021-00214, Application, Direct Testimony of Paul H. Raab, page 4, lines 9-17, and the Energy/Demand study referenced in the current application, Raab Direct Testimony, page 4, lines 5-13. Both studies classify distribution mains investment costs as both demand-related and commodity-related, based on the average and excess demand approach, consistent with the methodology proposed by the Attorney General in Case No. 2013-00148.
- b. As indicated in its response to Staff 4-04, the Company decided to perform an Energy/Demand study in this proceeding to provide the Commission with an additional data point to use to judge the reasonableness of the Company's proposed allocation of the identified revenue deficiency in this case and to assist in the design of rates.

Respondent: Paul Raab

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-07
Page 1 of 1

REQUEST:

Refer to the Application, Raab Direct Testimony, Exhibit PHR-2, page 1. Explain the negative value for the State Income Taxes and Federal Income Taxes for the Residential Sales class.

RESPONSE:

The negative value for State Income Taxes and Federal Income Taxes for the Residential Sales class is the result of applying the marginal tax rate to a negative taxable income value calculated for Residential Sales customers. In this case, taxable income is negative because interest expense allocated to Residential Sales customers exceeds income before taxes allocated to the class.

Respondent: Paul Raab

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-08
Page 1 of 1

REQUEST:

Refer to the Application, Raab Direct Testimony, Exhibit PHR-5. Provide a similar exhibit comparing the Cost-of-Service Studies (COSS) filed in this case as compared to the COSS filed in Atmos's Application in Case No. 2021-00214.

RESPONSE:

See Attachment 1, which is consistent with the Cost-of-Service Studies (COSS) filed in Atmos's Energy's application in Case No. 2021-00214.

ATTACHMENT:

Staff_4-08_Att1 - Exhibit PHR-5.pdf

Respondent: Paul Raab

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-09
Page 1 of 1

REQUEST:

Refer to the Application, Raab Direct Testimony, in general. Explain whether other methods of cost allocation were considered when performing the three different cost of services studies. If others were considered, explain why the method was not utilized in this application.

RESPONSE:

No methods of cost allocation other than those filed were considered when performing the three different cost of service studies.

Respondent: Paul Raab

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-10
Page 1 of 1

REQUEST:

Provide, in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible, the average monthly bill impact for each customer class based on current and proposed base rates and not including any riders, roll-in of the pipeline replacement program charges, or the Gas Cost Adjustment.

RESPONSE:

Please see Attachment 1, tab "Test Year Monthly - (Delta)".

ATTACHMENT:

Staff_4-10_Att1 - Bill Impacts.xlsx

Respondent: Paul Raab

Case No. 2024-00276
Atmos Energy Corporation, Kentucky Division
Staff DR Set No. 4
Question No. 4-11
Page 1 of 1

REQUEST:

Refer to the Application, Raab Direct Testimony, Exhibit PHR-2, Exhibit PHR-3, and Exhibit PHR-4.

- a. Present evidence to prove that the current customer charges for each class are insufficient for Atmos based on the customer related cost results from each performed COSS at equalized return.
- b. For each customer class, explain in detail why Atmos decided to allocate the proposed increase in revenue between the fixed customer charge and the volumetric charges.

RESPONSE:

- a. Atmos Energy did not develop the customer charges for each class based solely on customer related cost results from each performed COSS. As explained in the Direct Testimony of Paul H. Raab, page 20, lines 16-19, Atmos Energy developed its customer charges for each rate class based on the lowest fixed costs, both customer-related and demand-related costs for Residential and Non-Residential. Firm Sales customers, which was indicated by all studies completed. This is also described in Exhibit PHR-5, page 2 lines 8-9.
- b. Atmos Energy decided to allocate the proposed increase in revenue between the fixed customer charge and the volumetric charges was based on gradualism rather than moving to the full fixed.

Respondent: Paul Raab