Decision No. C23-0293

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 22AL-0348G

IN THE MATTER OF ADVICE LETTER NO. 584 FILED BY ATMOS ENERGY CORPORATION TO REVISE ITS COLORADO P.U.C. NO. 7 TARIFF TO PLACE INTO EFFECT CHANGES TO THE COMPANY'S ANNUAL REVENUES AND RECOVERY OF RATE CASE EXPENSES, TO BECOME EFFECTIVE SEPTEMBER 5, 2022.

COMMISSION DECISION GRANTING, IN PART, AND DENYING, IN PART, EXCEPTIONS TO RECOMMENDED DECISION NO. R23-0181 AND REQUIRING COMPLIANCE FILING

Mailed Date: May 4, 2023
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I. <u>BY THE COMMISSION</u>

A. Statement

1. On August 5, 2022, Atmos Energy Corporation (Atmos or Company) filed Advice Letter No. 584 with tariff sheets for its base rate schedules for natural gas utility service to Colorado customers.

2. On March 15, 2023, Administrative Law Judge (ALJ) Conor F. Farley issued Recommended Decision No. R23-0181 (Recommended Decision) permanently suspending the effective date of the tariff sheets filed with Advice Letter No. 584. The Recommended Decision establishes modified base rates and authorizes the Company's System Safety and Integrity Rider (SSIR) to continue for an additional two years through 2025.

3. This Decision addresses the exceptions to the Recommended Decision filed by Atmos, Staff of the Colorado Public Utilities Commission (Staff), the Colorado Office of the

Utility Consumer Advocate (UCA), and Energy Outreach Colorado (EOC). After considering the filed exceptions, the responses thereto, and the evidentiary record in this Proceeding, we grant, in part, and deny, in part, the exceptions. We further uphold the Recommended Decision except as modified by this Decision.

B. Background

4. Through Advice Letter 584, Atmos sought a net annual increase in its overall annual base rate revenue of some $7.7 million. The Company also sought to roll into base rates approximately $56.75 million of costs presently recovered on an annual basis through its SSIR. The cost of service study (COSS) supporting the proposed revenue requirement used a test year ending March 31, 2022, a year-end valuation of rate base, and a weighted average cost of capital (WACC) of 8.17 percent. Atmos' proposed capital structure included an equity component of about 61 percent and an authorized return on equity (ROE) of 10.95 percent. Atmos also requested a five-year extension of its SSIR, through 2028.

5. Advice Letter No. 584 further included the Company's base rate tariff schedules with new base rates calculated using an update to Atmos' class cost of service study (CCOSS). Atmos further proposed to mitigate the impact of the updated cost allocations to the Residential rate class so that Residential customers would see a typical bill increase of 8 percent to 9 percent and non-Residential rates would remain largely unchanged.

6. By Decision No. C22-0514, issued September 1, 2022, the Commission set the tariff pages filed with Advice Letter No. 584 for hearing pursuant to § 40-6-111(1), C.R.S., and referred this Proceeding to an ALJ.

7. The Recommended Decision rejects the base rates Atmos filed with Advice Letter 584 and establishes alternative base rates the ALJ determines are just and reasonable.

8. With respect to Phase I-related findings and directives, Atmos' new base rates would be based on a revenue requirement that reflects a WACC of 7.0 percent, with a range for the authorized ROE extending from 9.3 percent to 9.6 percent and a range for the equity component of the Company's capital structure extending from 55 percent to 58 percent. The base rate revenue requirement also would reflect a test year ending March 31, 2022, as proposed by the Company, but with a 13-month average valuation for the associated rate base. The Recommended Decision rejects the Company's proposed $1.1 million in annual depreciation expenses and authorizes recovery of actual rate case expenses, capped at $650,000 and amortized over three years with no return.

9. With respect to Phase II-related findings and directives, the Recommended Decision requires an updated CCOSS without the minimum distribution system (MDS) methodology for the allocation of costs to the Company's rate classes. The Recommended Decision also maintains the current levels of the Company's monthly service and facilities (S&F) charges.

10. The Recommended Decision further authorizes an additional two years for the Company's SSIR, through 2025. The ALJ indicates his expectation that all high-risk projects would be completed within the two years.

11. On April 4, 2023, Atmos, Staff, UCA, and EOC filed exceptions seeking to reverse or modify portions of the Recommended Decision. Notably, Atmos explains in its exceptions that if the Recommended Decision were adopted by the Commission without modifications, the result would be lower base rates to customers from those currently being charged. The Recommended

Decision directed Atmos to include in its exceptions filing an updated calculation of the base rate revenue requirement using the Company's COSS, an updated COSS, updated calculations of the General Rate Schedule Adjustment (GRSA) intended to recover certain costs in addition to the costs recovered through the established base rates, and corresponding bill impacts, all reflecting the findings and directives made in the Recommended Decision.

12. On April 11, 2023, responses to the exceptions were filed by Atmos, Staff, and UCA.

C. Discussion

13. We have examined the Recommended Decision in the broad context of guiding regulatory principles and reviewed the array of decisions the ALJ applied as the trier of the facts in this Proceeding. We conclude that the Recommended Decision, with only certain modifications, results in the proper balance between customer and investor interests. We likewise find the result of the ALJ's rulings in this Proceeding, as modestly revised by this Decision, to be fair and just.

1. Rate Base Valuation

a. Recommended Decision

14. The Recommended Decision adopts a 13-month average for determining rate base. In arriving at this conclusion, the ALJ cites the Commission:

> In previous decisions, the Commission has stated that in most cases average rate base more accurately reflects the relationship between test year investments, revenues, and expenses than a year-end rate base. However, the Commission also has acknowledged in prior decisions that the use of year-end rate base may be proper in special circumstances, for example, to combat some potential sources of attrition beyond control of the Company, such as growth in plant, especially plant that is non-revenue producing[.][1]

[1] Decision No. C93-1346 issued in Proceeding No. 93S-001EG on October 27, 1993 at ¶ 39.

15. Additionally, the ALJ finds that the Commission has pointed to the existence of inflation and capital growth beyond the control of the utility as potential additional justifications for using the year-end method of calculating rate base.[2]

16. With this guidance, the ALJ finds that Atmos has not satisfied its burden establishing circumstances that justify a year-end rate base valuation. The ALJ further finds that Atmos did not rely on inflation as a basis in arguing that the Company is suffering earnings attrition and the Company recovers SSIR expense in full and non-SSIR growth is within control of the Company.

b. Exceptions

17. Atmos contends in its exceptions that the 13-month average rate base methodology adopted by the Recommended Decision ignores both evidence in the record in this Proceeding and Decision No. C22-0642 in Proceeding No. 22AL-0046G, the recently concluded gas rate case of Public Service of Colorado (Public Service). Atmos argues that its case parallels the Public Service case and the same rationale for the use of a year-end rate base applies: a year-end valuation more accurately and completely incorporates into rates investment that is used and useful, reduces regulatory lag, and allows the Company an opportunity to earn its authorized rate of return. Atmos also references Public Service's 2019 Phase I electric rate case, Proceeding No. 19Al-0268E, in which the Commission authorized the use of an average rate base for determining base rate revenue requirements but also included a non-historic current test year with some $5 billion in investment. Atmos contends that in their testimony Staff and UCA misconstrued prior Commission decisions, and that prior rate case precedent actually supports year-end rate base methodology.

[2] Recommended Decision at ¶ 59.

18. Atmos argues that it should be treated consistently with other utilities and maintains that the 13-month average rate base methodology does not allow it the opportunity to earn its authorized return. Specifically, the Company maintains that a 13-month average rate base excludes some $24 million investment that has been in service for more than a year and that neither Staff nor UCA challenge as plant in service as of March 31, 2022.

19. Atmos also notes that while the Recommended Decision states the Company does not rely on inflation as a basis for its earnings attrition argument, there is substantial evidence describing the current economy as "an inflationary environment" with "increasing inflation," which drive increased costs. Atmos states that the Commission has previously found a year-end rate base to be appropriate based on economic conditions of attrition beyond the control of the utility, inflation, and growth.

c. Responses

20. In response to Atmos' request in its exceptions for the valuation of rate base to be made at the end of the test year, Staff disagrees that Atmos is suffering earnings attrition that would warrant a year-end valuation of rate base and that any earnings attrition has resulted from increased capital expenditures because of higher than budgeted growth, public improvement projects, and other non-SSIR system integrity projects that the Company could have addressed had it filed a rate case earlier. Therefore, Staff argues, any earnings attrition has been within the control of the Company.

21. Staff also argues that average rate base better represents plant being placed into and taken out of service over the test year, while year-end is limited to a snapshot of plant at one point in time, which can create an incentive to maximize the value of that data point.

22. Staff disagrees with the applicability of the Commission's decision in Public Service's 2022 gas rate case, arguing that the decision in that case was based on the type of investments in Public Service's historic test year and a WACC and authorized ROE that were relatively lower than what may be authorized in this Proceeding.

23. UCA responds to Atmos exceptions addressing rate base valuation. UCA argues that the use of average rate base is supported by the regulatory matching principle of maintaining the relationship between investments, revenues, and expenses and citing Atmos witness Christian's agreement at hearing that the approved test period rate base methodology should adhere to the matching principle. UCA therefore contends that the evidentiary record supports the Recommended Decision's approval of a 13-month average rate base.

24. UCA disagrees that the approval of a 13-month average rate base methodology is "at odds" with recent Commission decisions. UCA notes that for at least 23 years, the Commission has authorized a 13-month average rate base for Atmos and disagrees that the two decisions referenced by Atmos support a 13-month average rate base in this proceeding. UCA argues that the Commission's decision in Public Service's 2022 gas rate case[3] was specific to the evidentiary record of that proceeding, and in its 2019 decision, the Commission wrote that "using a 13-month average rate base serves to increase the precision of the rate base and best adheres to the matching principle."[4]

25. Like Staff, UCA disagrees with Atmos' assertion that its earnings attrition is beyond its control, contending that Atmos failed to substantiate the reason for its under earnings nor explain the large attrition in March 2022. Furthermore, although regulatory lag can result in under

[3] Proceeding No. 22AL-0046G.

[4] Proceeding No. 19AL-0268E, Decision No. C20-0096 at ¶ 70.

earnings, UCA maintains that regulatory lag benefits ratepayers, as the Commission has acknowledged. Finally, UCA asserts that the continuation of the SSIR will allow Atmos to mitigate regulatory lag.

26. Finally, UCA argues that Atmos failed to provide justification of a year-end rate base and raised the issue of inflation in its Exceptions. This was contrary to the Recommended Decision's finding that "As to inflation, Atmos does not rely on it as a basis for its attrition argument."[5]

d. Findings and Conclusions

27. With respect to the calculation of the value of the rate base by which the Company's authorized return is multiplied for the calculation of base rate revenue requirements in the COSS, we conclude that Atmos did not provide compelling evidence to sway from the ALJ's application of the 13-month average convention for the selected test year. The ALJ reasonably referred to prior Commission guidance as well as the fact that an average test year valuation has been applied in Atmos rate cases for at least 23 years. We also find the ALJ accurately determined that Atmos did not sufficiently justify that it does not have control over its own expenditures so that it may earn a return on rate base valued at the end of the selected test year.

28. We also note that, as UCA argues, the equity ratio portion of the capital structure is relatively high when compared to other utilities in Colorado and across the country. We find that the capital structure can act as a balancing mechanism to other facets of a rate case, and as mentioned above, must be contemplated in the context of the broad and competing consumer and investor interests at play. While we discuss the specifics of capital structure below, we conclude

[5] Recommended Decision, ¶ 60.

here that the ALJ's finding of a relatively high equity ratio balances the use of average rate base, and results in just and reasonable rates from a wholistic perspective and given the various regulatory principles that guide this Commission's decision-making. Accordingly, for those aforementioned reasons, we reject Atmos' request for exceptions with respect to calculating the value of the test year at year end for the purpose of calculating returns in the Company's base rate revenue requirement.

2. Depreciation

a. Recommended Decision

29. The Recommended Decision adopts the use of Atmos' proposed depreciation rates, as modified by Staff, for the derivation of the depreciation expense to be reflected in the Company's base rate revenue requirement. However, the ALJ further finds that Atmos had not carried its burden with respect to an adjustment of $1.1 million to the depreciation expense included in the COSS.

b. Exceptions

30. In its exceptions, Atmos argues that the depreciation expense for the selected test year increased should be applied to include known and measurable investments, and requests that the Commission set aside the ALJ's rejection of the Company's depreciation expense adjustment. Instead, Atmos contends, the Commission should approve Atmos' calculation of depreciation expense regardless of the methodology approved for the valuation of the Company's test year rate base. Atmos further contends that the investments made in the test year were not challenged as imprudent and that those investments are used and useful in serving its customers, but that the

Recommended Decision's denial of adjusted depreciation expense means that the Company is prevented from recovering the costs of those investments through base rates.

31. Additionally, Atmos contends in its exceptions that the Company accepted Staff's proposal to accelerate depreciation in certain accounts, but the ALJ's rejection of its adjustment to the test year depreciation expense means that about half of Staff's recommended modification will not be reflected in rates.

32. Atmos further objects to the finding that "direct and rebuttal testimony do not provide sufficient explanation for the proposed adjustment" and that Atmos' witness' oral testimony on redirect at hearing "was insufficiently clear."[6]

c. Responses

33. In response to Atmos' exceptions related to depreciation expenses, UCA contends that the $1.1 million adjustment should be denied because the regulatory principle of matching requires that depreciation expense calculation match the approved return on rate base methodology. UCA notes that Atmos acknowledges this principle when the Company requests that the Commission approve its depreciation expense calculation "regardless of the rate base methodology approved."

d. Findings and Conclusions

34. We find good cause to grant Atmos' exceptions related to the Recommended Decision's rejection of the adjustment to the annual depreciation expense. We agree with the Company that its adjustment to the annual depreciation expense in the COSS properly accounts for the recovery of the costs of the investments used to provide service when the new base rates

[6] Proceeding No. 19A-0425E, Decision No. R20-0144 ¶ 29.

are in effect. We further agree with Atmos that when establishing rates, the Commission considers both the return "on" rate base, calculated by multiplying the return or WACC to the determined value of the rate base as discussed above, and the return "of" the rate base as achieved through the annual depreciation expense reflected in the COSS.

35. In this Proceeding, upon the examination of the numerous and variable inputs and assumptions required to complete the COSS and to establish base rates, we reject the UCA's rationale for objecting to Atmos' proposed depreciation adjustment based on the "matching principle." As stated above, our decision to adopt the 13-month average approach for calculating the value of the test year rate base is supported, in part, on the relatively high range ultimately adopted for the equity component of the Company's capital structure. Our findings and directives related to the calculation of the return on rate base in the COSS combine with our findings on the amount of depreciation expenses also reflected in the COSS in the overall determination of just and reasonable rates.

36. We also note that Atmos suggested in its Direct Testimony that the Company's deprecation expenses in this Proceeding not be reduced to reflect longer lives for certain assets considering Colorado legislation and potential uncertainty regarding the future of infrastructure investments.[7] In light of the potential outcomes of this case if the Recommended Decision is adopted, or if certain of Atmos' exceptions to that decision are granted as demonstrated in the attachment to Atmos' exceptions, we also find it reasonable to adopt the higher level of depreciation expenses calculated upon granting Atmos' request to adjust its depreciation expense by approximately $1.1 million. The adjusted level of annual depreciation expenses better aligns

[7] Hearing Exhibit 101 at 16:23-17:5 (Direct Testimony of Mr. Armstrong).

with state policies related to the depreciation of gas utility investments[8] and may be reasonably reflected in the new level of base rates that will take effect as a result of this Proceeding.

3. Capital Structure

a. Recommended Decision

37. The Recommended Decision authorizes a range of 55 to 58 percent for the equity component in the Company's capital structure and removes from the capital structure debt resulting from Winter Storm Uri in 2021. The ALJ concludes that the authorized equity range is sufficient for Atmos to maintain its credit rating and access debt markets at the lowest reasonable cost, while generating just and reasonable rates for ratepayers.

b. Exceptions

38. In its exceptions, UCA recommends that the Commission adopt a capital structure in the COSS that reflects the Company's actual capital structure as of March 2022: 53 percent equity and 47 percent debt. The amount of debt at that time includes some $800 million associated with Winter Storm Uri.

39. In general terms, UCA contends that in the Recommended Decision, the ALJ contradicts his own capital structure findings and conclusions.[9] UCA maintains that an equity ratio of 45 to 55 percent is sufficient to maintain financial integrity.

40. UCA specifically argues that the ALJ erred in excluding from Atmos' capital structure the debt incurred as a result of Winter Storm Uri. UCA contends that because Atmos admits that the debt was medium term (two-year maturity), and securitized by a Texas state agency

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[8] § 40-3.2-108(4)(c)(XII), C.R.S.

[9] Recommended Decision ¶ 93.

before the end of 2022, the total amount of debt is speculative and should not be used as a basis to authorize a capital structure that is significantly higher in equity.

41. If the Commission determines that a range of equity is appropriate, UCA recommends a range of 52 to 55 percent, consistent with what was authorized in Proceeding No. 22AL-0046G, Public Service of Colorado's most recent gas rate case.

c. Response

42. Atmos responds to UCA's requests related to capital structure by arguing that including the Winter Storm Uri debt is central to the UCA's argument, but that the Recommended Decision was correct in excluding such debt because it was for gas purchased for customers in other states.

43. Atmos further argues that an equity range of 55 to 58 percent is important for the Company to maintain its current credit rating and access to capital markets at favorable rates in an inflationary environment that could exacerbate earnings attrition beyond the Company's control. Atmos maintains that the result of the Recommended Decision is a revenue decrease and an overall 55 basis point decrease in the Company's authorized rate of return, so the 55 to 58 percent equity range is important for the Company to maintain its financial health.

d. Findings and Conclusions

44. We reject UCA's request for exceptions on the issue of capital structure. Consistent with the discussion above, capital structure is one of many decision points in a rate case proceeding—one that must be considered wholistically in the broader context of overall revenue requirements and the competing interests of a utility's customers and its investors.

45. While the range of the equity ratio component of the authorized capital structure is relatively high when compared to Colorado and national gas utilities, as explained above, the authorized capital structure as determined by the ALJ reasonably balances the competing interests of customers and investors, and leads to just and reasonable rates.

46. We further agree with the Recommended Decision that there is no basis to include the debt Atmos incurred to finance it Winter Storm Uri expenses when establishing the Company's capital structure, because that was an extraordinary event in every sense, and does not represent the Company's long-term capital structure.

4. Rate Case Expenses

a. Recommended Decision

47. The Recommended Decision authorizes recovery of rate case expenses up to $650,000, amortized over three years, with no return. The ALJ commended Atmos for controlling rate case expenses in this proceeding, particularly in comparison with recent rate cases. The ALJ also rejected UCA's contention that Atmos failed to provide proper notice for its requested recovery.

b. Exceptions

48. UCA raises three challenges to the Recommended Decision and argues that Atmos should not be able to recover rate case expenses. First, UCA argues that the approval of $650,000 for rate case expenses relies on a factual error because Atmos reduced its rate case expense estimate to $600,000 in Rebuttal Testimony and during the evidentiary hearing noted that a reduction in travel expenses would decrease rate case expenses even further. Second, UCA contends that Atmos' notice of this rate case failed to meet the requirements of Rule 1207(f), and therefore it

should be denied recovery of rate case expenses because they are above and beyond the amount listed for recovery in the notice. Third, UCA recommends that the Commission apply the "lodestar" method to evaluate rate case expenses and argues that Atmos did not carry its burden that expenses are just and reasonable because the Company failed to provide factual support demonstrating that the expenses were prudently incurred.

49. UCA also maintains that if Atmos submits unredacted invoices supporting its rate case expense claims, the Parties must have an opportunity to review the invoices and conduct discovery, and that a hearing on rate case expenses should be held if necessary and if requested by a party. UCA also takes exception to the ALJ's commendation of Atmos for controlling rate case expenses, noting that in Atmos' last rate case in 2017, it was awarded $350,000 in rate case expenses.

c. Responses

50. Atmos responds that UCA has misunderstood the Recommended Decision because the ALJ authorized recovery of actual rate case expenses not to exceed $650,000, not recovery of $650,000 regardless of actual expenses. Atmos further contends that it has provided substantial support that its rate case expenses were reasonable and prudently incurred, and has provided updated expense estimates.

51. As to UCA's concern that the notice met Commission rule requirements, Atmos argues that it provided adequate information to enable interested persons to be reasonably informed as to the matter noticed. Atmos maintains that the Recommended Decision's finding is correct that it is unlikely an interested party would not have intervened in the proceeding based on the notice.

52. Atmos argues that UCA seeks a higher legal standard for Atmos with the "lodestar" method, noting that the Commission has not applied that method in 20 years. Atmos offers that the appropriate legal standard, consistent with Colorado Supreme Court and Commission precedent, applies a presumption of prudence for utility expenses. Atmos maintains it has met its burden by providing updates on rate case expense and UCA has failed to show that Atmos' rate case expense is unreasonable.

d. Findings and Conclusions

1. As to UCA's first issue, we agree with Atmos that the Recommended Decision sets a cap of $650,000 for rate case expense recovery and only allows recovery of actual expenses incurred. UCA's exceptions portray the Recommended Decision as setting the allowed rate case expenses equal to $650,000, whereby the company can recover that amount regardless of how much it spends on this proceeding. However, we read the decision as only authorizing the actual expenses incurred for this proceeding. Because the Recommended Decision does not operate in the way UCA describes, and because we find that amortizing rate case expenses over three years with no return is consistent with the record in this proceeding and with our determinations in other rate proceedings, we decline to disturb the Recommended Decision on these grounds.

2. As to the notice issue, UCA disagrees with the ALJ's finding that "UCA's notice-based argument is unavailing,"[10] and raises again its view that Atmos did not provide proper notice regarding rate case expenses. Before the ALJ, UCA argued that Atmos' notice for this rate case violated 4 Colorado Code of Regulations (CCR) 723-1-1207(f), which requires notice to "contain adequate information to enable interested persons to be reasonably informed of the

[10] Recommended Decision ¶ 143.

purpose of the matter noticed." Specifically, UCA argues that because Atmos stated in its notice that the annual revenue increase "reflects the increase to base rates and the proposed recovery of Rate Case Expenses," a reasonable interpretation would be that the total recovery included rate case expenses, and therefore any recovery above that amount (in this instance, rate case expenses) should be disallowed.

3. We have reviewed the notice and find that the notice makes clear that the purpose of the proceeding is to increase rate recovery by roughly $7.6 Million and that Atmos also seeks to recover rate case expenses. As UCA points out, the notice can be read to indicate that the roughly $7.6 Million includes rate case expenses. However, the notice also provides that the rates ultimately authorized may not be the same as those proposed, and, crucially, that the final rates may be higher or lower than Atmos' proposal. In our view, a reasonable person reading the notice would know (1) that this is a rate case, (2) Atmos is seeking to increase recovery, (3) proposing to do so by roughly $7.6mm, (4) rate case expenses are sought for recovery, and (5) the ultimate increase in revenue may be more or less than the $7.6mm Atmos asked for. We conclude that this would make them reasonably informed about the purpose of this proceeding, which is the standard set forth in Rule 1207(f). Accordingly, we decline to deny rate case expense recovery on these grounds.

4. We turn next to UCA's evidentiary challenge to rate case expense recovery. UCA contends that the Commission should analyze rate case expenses by applying the legal test courts use when awarding attorney fees to winning parties. It refers to this as the "lodestar test." However, that test is misplaced in this context. Rate cases create a model of the utility, including the utility's various costs. Rate case expenses are one of those costs. Determining whether those costs were prudently incurred (which is our charge in a rate case) is a different inquiry than

determining whether the winning party in a court case incurred a reasonable amount of attorney fees (that the losing side must pay). Therefore, we decline to apply the "lodestar test" to determine whether the legal and consulting fees—one of the utility's operating expenses—were prudently incurred so as to be recoverable in utility rates.

5. UCA next argues that the Commission should not allow recovery of attorney fees, consultant spend, and travel expenses incurred in preparing this rate case because the data provided in support of those expenses is not sufficiently granular. UCA argues that to determine prudence the Commission must know the hourly rates and how much time was spent on each aspect of the rate case, and it also argues that Atmos' travel expenses incurred to prepare for this rate case were imprudent because the hearing was held virtually.

6. In our view, UCA is arguing that this Commission cannot determine whether a utility's incurred cost is prudent unless the record contains near-perfect evidence in support of that cost. But this goes far beyond the preponderance standard that governs our rate cases[11] and so is well beyond what is sufficient to support a prudency finding. As it is, the Commission has long experience with rate cases and can determine based on the size, scope, and procedural history of the case, along with the record evidence, what level of rate case expenses would be reasonable to recover. The Commission is in the best position, as is the ALJ, to determine how contentious and wide ranging a rate case is.

7. Having reviewed the procedural history of this proceeding, the record and testimony, the Hearing Exhibit[12] that shows Atmos' actual rate case expenses for its last four rate cases, along with the recently filed legal invoices and itemized rate case expenses, we conclude

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[11] *See* § 24-4-105(7), C.R.S.; § 13-25-127(1), C.R.S.

[12] HE 400 Attachment CWS-17.

that a cap on expenses of $650,000 as set by the ALJ is a reasonable way to control rate case expenses while permitting recovery for an actual cost incurred by the utility. We reiterate that we are allowing Atmos to recover its actual expenses, which, as UCA indicates in its exceptions, are likely to fall well below $650,000. In reaching this conclusion we note the cap is similar to the rate case expenses that Atmos incurred in its 2013 rate case, and that the figures included in that Hearing Exhibit are not adjusted for inflation. Our review of the recently-filed legal invoices has not revealed any rates that strike us as imprudent, nor do any of the itemized expenses appear disproportionate to expenditures in other rate cases. That, and the size of this proceeding, leads us to conclude that it is more likely than not that a cap of $650,000 would result in recovery of only those costs prudently incurred in the preparation and presentation of this case.

8. Finally, we decline to accept the UCA's argument that travelling to prepare a complex and involved filing such as a rate case is imprudent simply because the rate case may later be heard virtually. When a rate case (or any application) is filed, the filing party, and later the intervening parties, do not know whether the case will be heard in person or virtually. We decline to adopt a one-size-fits-all approach in this proceeding that would preclude recovery of modest travel expenses to prepare for a proceeding of this magnitude.

9. We therefore deny UCA's exceptions on this issue and uphold the Recommended Decision.

5. Class Cost of Service Study and Rate Design

a. Recommended Decision

10. Consistent with the ALJ's finding that Atmos did not carry its burden to establish that the Minimum Distribution System (MDS) methodology accurately allocates costs in the

Company's class cost of service study (CCOSS), the Recommended Decision directs Atmos to re-calculate its CCOSS without the MDS.

11. When turning from the updated CCOSS results to the design of base rates, the ALJ finds that keeping the monthly S&F charge at its current level for the Residential rate class is in the public interest. The Recommended Decision thus directs Atmos to recalculate its overall revenue deficiency and recalculate the volumetric Residential rate with the S&F charge set at that current level. The ALJ goes on to specify that base rates would be designed so that no rate class would see a rate decrease.

b. Exceptions

12. In its exceptions, Atmos notes that the result of the Recommended Decision is an overall decrease in the Company's revenue requirement and requests Commission clarification of the directive that no customer class realize a rate decrease. Atmos also requests that the Commission affirm that the current Residential S&F charge be maintained and not decreased as a result of the net decrease in the Company's revenue requirement.

13. UCA requests modification of the Recommended Decision to allow the Residential class to receive the full benefit of the revenue requirement reduction. UCA also points out that the Answer Testimony of UCA Witness Peterson included a CCOSS without using the MDS approach, which the ALJ had directed Atmos to file.

14. Staff recommends the overall decrease in base rate revenues be implemented based on the CCOSS and rate design adopted by the Commission in this Proceeding. Staff recommends that the Commission hold a technical conference to confirm the re-calculations.

c. Responses

15. In its response to exceptions related to the establishment of new base rates, Atmos agrees with UCA's recommendation to allocate the revenue requirement decrease to the Residential class and agrees that the CCOSS without the MDS has been admitted into the record.

16. In its response to exceptions, UCA agrees with Atmos' request to maintain the Residential customer charge at its present level as supported by the record in this Proceeding.

d. Findings and Conclusions

17. We agree that it is appropriate for the Residential customer class to benefit from any decrease in Atmos' overall annual revenue requirement resulting from the Recommended Decision as modified by this Decision. Therefore, we modify the Recommended Decision at Paragraph 185 to clarify that the Residential class can be provided with a rate decrease. We also agree that it is appropriate to maintain the S&F charge at its current level when designing the new reduced base rates for the Residential rate class.

18. We are not persuaded that a technical conference is needed to implement the Recommended Decision as modified by this Decision. The attachments to Atmos' exceptions indicate that modified base rates developed in accordance with the directives and clarifications in this Decision can be implemented in a straightforward manner. We nonetheless direct Atmos to confer with Staff and UCA before the Company submits in compliance tariff filing to review the updated calculations using the COSS, the updated CCOSS results, the design of the modified base rates, and all of the other necessary changes to the Company's tariff sheets that result from this Proceeding.

19. We further acknowledge that a CCOSS without MDS methodology has been filed in the record of this Proceeding.

6. SSIR

a. Recommended Decision

20. The Recommended Decision grants a two-year extension of the SSIR, noting that this limited extension recognizes that contemporary cost recovery of utility investments should be reserved for extraordinary circumstances and should incentivize the Company to prioritize the projects creating those extraordinary circumstances. The ALJ goes on to state an expectation "that all high-risk projects will be completed with this two-year extension."[13]

b. Exceptions

21. In its exceptions, Atmos maintains that the record does not support the ALJ's expectation that all high-risk projects be completed in two years because the evidence shows that Atmos' polyvinyl chloride (PVC) and bare steel projects cannot all be replaced until 2036. Atmos therefore requests an extension of the SSIR through 2028 in order to complete its replacement of its high-risk pipe.

c. Responses

22. Staff recommends rejecting Atmos' exceptions related to a five-year SSIR extension, arguing that the two-year extension approved by the Recommended Decision will allow Atmos to transition away from its reliance on the rider. Staff contends that the Company has, based on its own scoring system, addressed its most pressing safety concerns and that the ten years

[13] Recommended Decision ¶ 50.

the Company will have had an SSIR is sufficient for it to replace its most risky pipes. Staff maintains that the rider is not intended to replace rate case filings and the Company has not demonstrated otherwise. In support of its position, Staff references the Commission's recent decision in Public Service's last rate case declining to extend Public Service's pipeline safety rider: "again, Public Service retains the right to file another base rate case should it be required based on priorities for necessary investment."[14]

23. In its response to Atmos' exceptions, UCA contends the record fully supports the Recommended Decision's finding that continuing the SSIR for two years is in the public interest. UCA rejects Atmos' argument that a five-year extension to continue replacing infrastructure quickly is in its customers' best interest, because the extension comes with direct costs to customers and may become stranded investment as Colorado adjusts its state policies regarding natural gas distribution. UCA asserts that the environmental benefit of reducing gas leaks through the SSIR must be weighed against policies to contain or shrink gas distribution companies' investment in gas infrastructure.

24. UCA also counters Atmos' argument that a five-year extension is required to meet the ALJ's expectation that the Company will complete all high-risk pipe projects within two years, noting that this statement was the opinion of the ALJ and that the paragraph that includes that opinion begins "The ALJ is not going to order Atmos….," and "There is not a sufficient record upon which to base such a decision…"[15] UCA emphasizes that the ALJ's expectation is not

[14] Proceeding No. 22AL-0046G, Decision No. C22-0642 ¶ 86.
[15] Recommended Decision ¶ 50.

included in the SSIR findings and conclusions[16] or in the summary paragraph of that section in the Recommended Decision.[17]

d. Findings and Conclusions

25. We find that its appropriate to begin winding down the SSIR and support the Recommended Decision's extension of the SSIR for two years. This limited extension will provide discipline for the Company as it addresses system safety and integrity projects, ensuring that ratepayers' dollars are used efficiently and effectively. We anticipate that Atmos will prioritize its highest risk pipeline replacement projects over the next two years; but we further agree with UCA that the Recommended Decision does not order that this be accomplished. We therefore reject Atmos' exceptions on this issue.

7. Interruptible Services

a. Recommended Decision

26. In accordance with the terms of the settlement agreement approved by the Commission in relation to its recovery of costs related to Storm Uri,[18] Atmos agreed to conduct a stakeholder meeting to discuss interruptible services and report the outcome of the meeting, as well as address issues related to interruptible rates, in its next general rate case filing.

27. In this Proceeding, Atmos filed testimony stating that the Company had conducted the required stakeholder meeting and that it had determined that it would be inappropriate to introduce interruptible service in this rate case, concluding that no customers would be interested in taking interruptible service. Atmos also determined that interruptible services could lead to

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[16] Recommended Decision ¶ 49.
[17] Recommended Decision ¶ 51.
[18] Proceeding No. 21A-0186G.

greater gas usage, adding to greenhouse gas emissions, and that if customers switched to interruptible service, system costs would be shifted to other customers.

28. Staff disagreed with Atmos in its Answer Testimony, arguing that Atmos did not thoroughly assess the benefits of interruptible services and that significant interruptible sales load could help the Company manage its capacity load for reliability and during an economic emergency. Staff found that there was insufficient record to require Atmos to develop interruptible services in this Proceeding but requested that the Commission require a thorough assessment and development of interruptible services in the Company's next gas rate case filing.

29. In the Recommended Decision, the ALJ agrees with Staff and directs Atmos to assess the benefits, develop interruptible services, and present that information in the Company's next gas rate case filing or in another appropriate filing.

b. Exceptions

30. In its exceptions, Atmos requests that the Commission reverse the Recommended Decision on this issue. Atmos argues that it has completed the required assessment and has determined that providing such a service will potentially benefit only a few transportation customers and is not likely to meaningfully reduce overall system gas costs. Additionally, the Company maintains that interruptible service would allow for more overall gas usage, which would also increase gas emissions from the Company's system.

c. Findings and Conclusions

31. We uphold the Recommended Decision on this issue and direct Atmos to include an analysis of interruptible services and an interruptible tariff proposal in its next general rate case or in a separate filing, as is appropriate.

32. We find that Atmos' testimony on this issue takes a very narrow view of the potential benefits of interruptible services and inadequately describes the results of the stakeholder meeting. We also find that a more robust analysis of interruptible service options remains necessary and therefore direct the Company to complete the assessment as ordered in the Recommended Decision. This assessment shall include an analysis of interruptible services: 1) for its smaller customers; 2) under various economic conditions; 3) in the context of Atmos' business in Colorado, not in comparison with larger utilities; 4) during emergencies such as Winter Storm Uri; 5) as part of Colorado's transition to a Clean Heat future;[19] 6) as part of increasing customer choice; and 7) as part of increasing Atmos' revenues. We anticipate that Atmos will bring creativity and innovation to this forthcoming analysis.

33. We also direct Atmos to provide more detail as to how it conducted its analysis and provide information on the stakeholder meeting, including the number of customers attending and the questions and discussions of that meeting as compared to the information provided in this Proceeding. We further direct Atmos to hold additional stakeholder meetings as necessary to complete its analysis.

8. Line Extension Policy

a. Recommended Decision

34. With respect to Atmos' line extension policy, the Recommended Decision rejects Staff's recommendations set forth in Answer Testimony that (1) new customers bear some portion of upfront costs of meters and regulators and (2) Construction Allowances be equal to the lower of the net average embedded cost (AEC) methodology or the current Construction Allowance. The

[19] §40-3.2-108, C.R.S.

ALJ instead agrees with Atmos' argument that it is inappropriate to address the Company's line extension policy in this Proceeding, finding that the record does not offer support for changes to the line extension policy. The ALJ further agrees with Atmos that, consistent with recently promulgated rules in Proceeding No. 21R-0449G, Atmos must implement a new line extension policy by December 31, 2024.

b. Exceptions

35. In its exceptions, Staff notes that the Commission invited parties to submit testimony on Atmos' line extension policies in this Proceeding and that Staff was the only party that provided such testimony. Staff concedes that waiting for the 2024 filing is one approach the Commission can take but disagrees that the record does not support adoption of Staff's recommendations. Referencing the Answer Testimony of its witness Eric Haglund, Staff concludes that should the Commission wish to move toward increased customer responsibility for gas service, the record in this Proceeding will allow it to do so.

c. Responses

36. Atmos disagrees with Staff's request related to its line extension policies, stating that Staff's recommendation was conditioned on a determination that Atmos' construction allowance should be adjusted yet the Recommended Decision declined to do that. Atmos states that Staff did not propose any specific adjustments to the amounts paid by customers or paid by the Company. Atmos also argues that requiring changes now to the Company's line extension policies would be inefficient, because the modified Rules Regulating Gas Utilities from Proceeding No. 21R-0449G will require utilities to update their line extension policies by December 31, 2024.

37. UCA likewise recommends upholding the Recommended Decision on this issue because Atmos' line extension policy will need to be updated again when the new rules become effective. However, UCA further notes that the Recommended Decision did not include UCA's position on line extensions, contained in the Answer Testimony of Cory Skluzak, that new customers should bear the costs of line extensions, as UCA had advocated in Proceeding No. 21R-0449G.

d. Findings and Conclusions

38. We appreciate Staff Witness Haglund's testimony and efforts to re-examine line extension and construction allowance policies. However, we now affirm that 4 CCR 723-4-4210(d), once it takes effect, will require Atmos to update its line extension policies by the end of next year. In the interest of administrative efficiency and in anticipation of a more thorough record, we find that the Recommended Decision is correct in declining require Atmos to file updated tariffs for its line extension policies at this time. We therefore deny Staff's exceptions on this issue.

9. Quality of Service Plan

a. Recommended Decision

39. The Recommended Decision declines to accept Staff's request that Atmos be required to file tariff sheets at the end of this Proceeding to implement a Quality of Service Plan (QSP). The ALJ finds that Staff failed to establish that its proposed QSP is appropriate at this time, concluding that there are too many questions as to whether the QSP would achieve its goal or have unintended consequences. Noting that a carefully crafted QSP would be valuable to Atmos and its ratepayers, the ALJ directs Atmos to work with Staff to create a QSP.

b. Exceptions

40. In its exceptions, Staff requests that the Commission order Atmos to file an application for approval of a QSP within 90 days of the Commission's final decision in this Proceeding and require the Company to work with Staff to develop specific QSP metrics along the lines described in Staff's Answer Testimony as well as any other appropriate metrics.

c. Responses

41. In response, Atmos recommends rejection of Staff's proposed QSP metrics because they are unreasonable and not supported by evidence. Atmos commits to working with Staff to develop a QSP but maintains that developing a QSP will take more than 90 days. The Company requests that if the Commission sets a deadline for a QSP application, it should be no sooner than 180 days from the Commission's final order in this Proceeding.

d. Findings and Conclusions

42. Staff's concern that Atmos have an appropriate QSP is well-placed, but the details of that QSP as proposed by Staff need to be better developed in a reasonable timeline. We therefore deny Staff's exceptions on this issue and uphold the Recommended Decision with the modification that a QSP application be filed no later than 180 days after the effective date of this Decision.

10. Charges for Rendering Service

a. Recommended Decision

43. As explained in its Direct Testimony, Atmos proposed eliminating a number of charges for rendering service, including a late payment fee of 1.5 percent per month on the outstanding balance of a customer's bill. Atmos asserted that by including the associated costs in the derivation of base rates but without the charges would promote equity and assist

disproportionately impacted communities. Atmos explained that from 2017 to 2019, these charges averaged $67,000 per year.

44. In its Answer Testimony, Staff and UCA recommended maintaining these charges, based on cost causation principles, rather than socializing the costs in base rates. In its Rebuttal Testimony, Atmos withdrew its proposal to eliminate charges for rendering service. The Recommended Decision did not adopt the proposal to eliminate these charges.

b. Exceptions

45. In its exceptions, EOC opposes the Company's withdrawal of its proposal to eliminate charges for rendering service, particularly the late payment fee, because of the impact to of those charges on income-qualified ratepayers. EOC argues that late fees are regressive and harmful to customers who are struggling with their bills, serving as a penalty instead of as an incentive for making timely payments. EOC also states that at the hearing, Atmos' Witness Armstrong could not say whether revenue collected through late fees was equal to the costs incurred. Additionally, UCA's Witness England stated that UCA does not object to the elimination of the late payment fee.

46. If the Commission upholds the Recommended Decision on this issue, EOC requests in the alternative that the collected late fees be donated to EOC.

c. Responses

47. Atmos responds that there is no dispute that the Company incurs a cost when providing service to customers who do not pay their bills. Atmos also claims that EOC presented no evidence that the carrying cost for unpaid bills is less than 1.5 percent. Noting that the Commission has previously found the late payment fee to be just and reasonable, Atmos requests

that if the Commission now finds the fee is not just and reasonable, it should either eliminate or reduce the fee and allow Atmos to recover the amount in base rates, as initially proposed by the Company. Atmos further contends that the Commission cannot order Atmos to collect the fee and then donate it to EOC, because that is not the purpose of the late fee. The Company notes that it has other programs designed to support EOC's customer assistance programs.

48. In its response to EOC's exceptions, UCA counters that UCA Witness Scott England recommended keeping customer charges as they are and not rolling them into base rates, so that Atmos recovers only what it needs to recover the costs associated with the charges. Dr. England maintained that including these charges in base rates would lead to inexact recovery, so if the Commission determines a late payment charge should be collected, it should be collected from the delinquent ratepayer, not from ratepayers as a whole.

d. Findings and Conclusions

49. We deny EOC's exceptions on this point, although we agree with EOC that late payment charges can be harmful to certain customers. We are also concerned about the lack of clarity as to how the late charges have been developed and specifically whether the amount customers pay in late fees is representative of the Company's costs. However, as noted by Atmos, the existing late payment fee has previously been found to be just and reasonable and the associated revenue is not substantial in light of the Company's overall base rate revenue requirements. We direct Atmos to support the use and level of late payment fees in its next rate case filing.

11. Requests for Clarification

a. SSIR

50. Atmos requests confirmation that its compliance tariff filing as a result of this Proceeding can include updated SSIR rates reflecting the transition of SSIR investments through 2021 into base rates, as approved by the Recommended Decision.

51. We confirm that Atmos's compliance filing shall include updated SSIR rates.

b. Underground Gas Storage

52. The Recommended Decision orders Atmos to recover gas storage costs through the Gas Cost Adjustment (GCA) at the cost of short-term debt instead of through base rates.

53. In its exceptions, Atmos requests confirmation that Company's GCA tariffs and rates can be included with the compliance filing as a result of this Proceeding.

54. We confirm that Atmos may file a modified GCA tariff and new GCA rates, as necessary, to comply with the Recommended Decision with respect to the recovery of gas storage costs.

c. General Rate Schedule Adjustment (GRSA)

55. Although this case involves the resetting of base rates with both Phase I and II components, Atmos seeks to implement a GRSA for three special purposes: 1) the temporary recovery of rate case expenses (for a three-year amortization), 2) the continuing amortization of certain pension-related costs, and 3) to address Excess Deferred Income Taxes (EDIT).

56. In its exceptions, Atmos requests clarification that the GRSA is limited to three years for rate case expense recovery but can continue as necessary for EDIT and pension amortization purposes.

57. We clarify that the GRSA authorized in this Proceeding shall be used for three years for the recovery of rate case expenses and can continue beyond those three years, as necessary, for EDIT and pension amortization purposes.

d. Test Year

58. In its response to exceptions, UCA points out that the period of the test year is defined as March 1, 2021, to March 31, 2022, in paragraphs 34 and 52 of the Recommended Decision. However, UCA states that parties agreed to a 12-month test year beginning April 1, 2021, and ending March 31, 2022. UCA requests the Recommended Decision be modified to reflect the agreed upon test year of April 1, 2021, through March 31, 2022.

59. We agree that the test year approved in this proceeding is the 12-month period beginning April 1, 2021, and ending March 31, 2022, and modify the Recommended Decision accordingly.

II. <u>ORDER</u>

A. The Commission Orders That:

1. The exceptions to Recommended Decision No. R23-0181, filed by Atmos Energy Company (Atmos) on April 4, 2023, are granted, in part, and denied, in part, consistent with the discussion above.

2. The exceptions to Recommended Decision No. R23-0181 filed by Staff of the Colorado Public Utilities Commission (Staff) on April 4, 2023, are granted, in part, and denied, in part, consistent with the discussion above.

3. The exceptions to Recommended Decision No. R23-0181 filed by the Colorado Office of Utility Consumer Advocate (UCA) on April 4, 2023, are granted, in part, and denied, in part, consistent with the discussion above.

4. The exceptions to Recommended Decision No. R23-0181filed by Energy Outreach Colorado on April 4, 2023, are denied, consistent with the discussion above.

5. The effective date of the tariff sheets filed by Atmos with Advice Letter No. 584 on August 5, 2022, is permanently suspended, and shall not be further amended.

6. The tariff sheets filed by Atmos with to Advice Letter No. 584 are permanently suspended and shall not be further amended.

7. Atmos shall file modified tariff sheets consistent with Recommended Decision No. R23-0181 as modified by this Decision. Atmos shall file the compliance tariff sheets in a separate proceeding and on not less than two business days' notice. The advice letter and tariff sheets shall be filed as a new advice letter proceeding and shall comply with all applicable rules. The date the filing is received at the Commission is not included in the notice period and the entire notice period must expire prior to the effective date. The effective date of the newly filed tariff sheets shall be May 13, 2023.

8. The advice letter and tariff must comply in all substantive respects to this Decision in order to be filed as a compliance filing on shortened notice. Consistent with the discussion

above, Atmos is ordered confer with Staff and UCA on the updated calculations supporting the development of the compliance tariff filing.

9. Atmos shall include an analysis and interruptible services tariff proposal in its next general rate case or in a separate filing, consistent with the discussion above.

10. Atmos shall file an application for approval of a Quality of Service Plan no later than 180 days following the effective date of this Decision, consistent with the discussion above.

11. The 20-day time period provided pursuant to § 40-6-116, C.R.S., to file an application for rehearing, reargument, or reconsideration shall begin on the first day after the effective date of this Decision.

12. This Decision is effective on its Mailed Date.

B. ADOPTED IN COMMISSIONERS' DELIBERATIONS MEETING April 21, 2023.

(S E A L)

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

ERIC BLANK

MEGAN M. GILMAN

TOM PLANT

Commissioners

ATTEST: A TRUE COPY

Rebecca E. White,
Director

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: Susan K. Duffy, Chair
Dwight D. Keen
Andrew J. French

In the Matter the Application of Atmos Energy Corporation for Adjustment of its Natural Gas Rates in the State of Kansas	)	Docket No. 23-ATMG-359-RTS

ORDER APPROVING SETTLEMENT AGREEMENT

This matter comes before the State Corporation Commission of the State of Kansas (Commission). The Commission concludes the following:

Background

1. On September 9, 2022, Atmos Energy Corporation (Atmos) filed an Application requesting an overall revenue increase of approximately $8.3 million, excluding the rebasing of the $3.5 million currently collected through its Gas System Reliability Surcharge Rider (GSRS) into base rates and setting to zero, as well as $0.6 million of its Ad Valorem Tax Surcharge being adjusted into Ad Valorem Expense and collected in base rates going forward rather than through the Ad Valorem surcharge.[1] If approved, Atmos' new overall rate of return would be 8.18%.[2] Atmos seeks to increase the current budget and a five-year extension of its System Integrity Program (SIP) Tariff from $35 million to $50 million.[3] Atmos also seeks to implement a Voluntary Smart Choice Carbon Offset Tariff (SCCO) Rider which allows customers the option of paying for carbon offsets for their gas usage.[4]

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[1] Application, pg. 2 (Sept. 9, 2022).
[2] *Id.*, at 3.
[3] *Id.*
[4] *Id.*, at 4.

2. Atmos also requested to revise its Transportation Tariffs to require most transportation customers to install Electronic Flow Management (EFM) equipment by November 1, 2024. This would necessitate a company-administered wireless phone line to provide the communications capability necessary to operate the EFM.[5]

3. Atmos Witness Rob Leivo testified that during times of volatile pricing like Winter Storm Uri, an EFM makes it possible to accurately determine which customers are responsible for imbalances during an Operational Flow Order (OFO) event. Atmos estimates the costs of the EFM equipment to be approximately $4,000 per customer, however about 165 of the 285 EFM customers would also be required to upgrade their meter at significant additional cost.[6]

4. Under Atmos' current tariff the cost of the EFM could be paid in monthly $30 increments, however Atmos requests the Commission eliminate this option due to increases in EFM equipment costs.[7]

5. Atmos proposes eliminating the fees found on schedule 18 of its tariff which include meter reading fees and credit card fees.[8] Atmos states that these charges vary greatly from year to year and it would be administratively simpler to recover them through base rates; additionally, it is more equitable to recover these costs spread throughout the customer base.[9]

6. Atmos requests that customers who sign up for transportation service in the future be required to maintain a minimum consumption level; all current customers would be grandfathered in regardless of usage.[10]

[5] Out of 512 current transportation customers, about approximately 285 would be required to install EFM. *See*, Justin Grady Direct Testimony, pg. 18 (Jan 17, 2023).
[6] "If a customer does not already have a large enough meter, they would also have to upgrade their meter, which could cost tens of thousands of dollars more", Direct Testimony of Rob R. Leivo, pg. 2, 4 (Sept. 9, 2022).
[7] Leivo Direct at 4.
[8] Direct Testimony of Kathleen R. Ocanas, pg. 9 (September 9, 2022).
[9] *Id.*
[10] Leivo Direct at 6.

7. Atmos states that it is currently an outlier, both Kansas Gas Service and Black Hills have minimum usage for transportation customers in their tariffs.[11]

8. On September 13, 2022, the Citizen's Utility Ratepayer Board (CURB) filed a Petition to Intervene which was granted on September 20, 2022.

9. On September 26, 2022, WoodRiver Energy, LLC (WoodRiver) filed a Petition to Intervene which was granted on October 12, 2022. Wood River is a privately owned natural gas marketing company which anticipates that the outcome of this proceeding may affect the costs paid by its customers.[12]

10. On January 17, 2023, Commission Staff (Staff) filed direct testimony of Roxie McCullar, Leo Haynos, Jaren Dolsky, William Baldry, Adam Gatewood, Kristina Luke-Fry, Justin Grady, Robert Glass, Lana Ellis, and Justin Prentiss.

11. Also on January 17, 2023, CURB filed direct testimony of Josh Frantz, Andrea Crane and J. Randall Woolridge.

12. On January 26, 2023, WoodRiver filed Cross Answering Testimony of Don Krattenmaker.

13. On February 10, 2023, Parties filed rebuttal testimony.

14. On February 13, 2023, the participants in the Energy Management Program of the Kansas Association of School Boards (KASB), the Olathe Public Schools (USD 233) and the Natural Gas Transportation Customer Coalition (NGTCC) (Collectively "Amici"), filed a Motion for Order Permitting the Filing of an Amicus Brief, which was granted on February 20, 2023.

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[11] *Id.* at 5.
[12] Presiding Officer Order Granting Woodriver's Petition to Intervene and Admission of Alex Goldberg *Pro Hac Vice*, pg. 2 (October 12, 2022).

The Settlement

15. On February 21, 2023, Staff, Atmos, CURB, and WoodRiver filed a Joint Motion to Approve Unanimous Settlement Agreement. (Exhibit A) A non-exhaustive list of the provisions of the Unanimous Settlement Agreement includes,

- Rolling $3,515,823 of GSRS into base rates as well as an additional $2,200,000 into base rates for a net increase of approximately 2.2 million;
- A compromise on depreciation rates, using Atmos' rates for some parts and Staff's for others;
- For purposes of calculating Atmos' GSRS and SIP, the carrying charge is 8.7% Gross of tax;
- Atmos withdraws its request to increase the budget of the 5 year SIP program from $35 to $50 million;
- Parties agree to make change to SIP program's risk assessment tool placing greater weight on bare steel;
- $8.5 million for ad valorem taxes;
- Changes to cost allocation methodology;
- EFM required for transportation customers except schools using less than 3,000 Dth/year; 9 year amortization for costs from conversion. About $63.26/month;
- Wireless communication line requirements for EFM subject to a future compliance filing;
- Minimum usage thresholds for future transportation customers;
- Approving the voluntary smart choice carbon offset tariff, on a pilot basis;

- Waiver of requirement to charge a credit card fee; other schedule 18 fees to remain the same.[13]

16. On February 24, 2023, Andrea Crane, Justin Grady and William Matthews provided testimony in support of the settlement.

17. On March 7, 2023, the Commission held an evidentiary hearing via Zoom regarding the joint settlement agreement and heard testimony in support of the settlement from William Matthews for Atmos, Andrea Crane for CURB and Justin Grady on behalf of Staff.[14] Testimony of parties at the hearing was substantially similar to the testimony the witnesses provided in support of the settlement.

The Amicus Brief

18. On March 31, 2023, Amici filed their brief. Amici argue that instead of implementing Atmos' proposed changes, the Commission should instead open a general investigation on (1) required threshold volumes, if any, for natural gas transportation; (2) circumstances, if any, where the Commission might require an EFM; and (3) a determination of which entity is responsible for non-compliance with operation orders, such as OFO, end use customers, or natural gas marketers providing aggregation services.[15]

19. Amici argue that: (1) there is no substantial material evidence in the Docket to support minimum volume thresholds for natural gas transportation in the docket; (2) there is no cost-benefit justification to require EFM for transportation customers; and (3) liability for non-conformance with an OFO is properly placed upon natural gas marketers as opposed to end users.[16]

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[13] Joint Motion to Approve Unanimous Settlement Agreement, Exhibit A, (Feb. 21, 2023).
[14] Tr. pgs. 34-65.
[15] Amicus Brief of Kansas Association of School Boards, the Olathe Public Schools, and the Natural Gas Transportation Customer Coalition, pgs. 1-2, (March 31, 2023).
[16] *Id.*

20. On April 5, 2023, Atmos filed a response to the Amici. Amos argues that a general investigation is not necessary and that there are enough differences between the utilities that a "one size fits all" approach garnered from a general investigation would be imprudent.[17] Atmos references the fact that after Winter Storm Uri, the Commission opened separate investigations into each utility because it recognized that each utility was unique and had unique challenges.[18] Atmos also argues that there is substantial evidence to support the provision that transportation customers be required to meet a minimum threshold amount.[19] Specifically, Atmos references the direct testimony of Rob Leivo, Ken Fogle and Staff witness Justin Grady.[20]

21. On April 20, 2023, Staff filed a response to the Amicus brief. Staff generally opposes the arguments raised by the Amici. Specifically, Staff argues that because the gas utilities are so different in their geography and system characteristics, the consistency sought by Amici through a general investigation is not necessary.[21] Because the Commission opened specific dockets for each of the utilities this allows a more wieldy approach.[22]

22. Contrary to the Amici, Staff argues that there is material evidence in the record to support the minimum volume threshold.[23] Staff posits that Amici chose not to participate as parties and therefore may not have an understanding of the depth of discussion regarding minimum volume thresholds.[24] Staff states that as a natural gas marketer, WoodRiver's support for the settlement is indicia that the agreement is reasonable.[25] Staff argues that no *party* to the docket has raised the issue of responsibility for non-compliance with OFOs and that Amici are barred from raising issues not

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[17] Response of Atmos Energy to Amicus Brief, pg. 1 (April 5, 2023).
[18] *Id.* at 1-2.
[19] *Id.* at 2, 4-5.
[20] *Id.* at 4-6.
[21] Response of Staff to the State Corporation Commission of the State of Kansas to Amicus Brief, pg. 1-2 (April 20, 2023).
[22] *Id.*
[23] *Id.* at 2-3.
[24] *Id.*
[25] *Id.* at 3

first raised by the parties.[26] (*emphasis added*). The Commission is not persuaded by the arguments raised by Amici.

The Commission's Three Factor Test

23. When analyzing a unanimous settlement, a three-factor test is used, the Commission must make an independent finding as to whether the settlement: (1) is supported by substantial competent evidence in the record as a whole, (2) will establish just and reasonable rates, and (3) is in the public interest.[27]

The Settlement is Supported by Substantial Competent Evidence in the Record as a Whole.

24. William Matthews stated that the settlement is consistent with the testimony filed in the Docket but also reflects a compromise on the part of the parties.[28]

25. Justin Grady testified that the agreement is supported by substantial competent evidence and explained some of the processes that led the parties to arrive at the terms of the settlement.[29]

26. Substantial competent evidence possesses something of substance and relevant consequence, which furnishes a substantial basis of fact to reasonably resolve the issues.[30] Whether another trier of fact could have reached a different conclusion given the same facts is irrelevant; a Commission decision lacks substantial competent evidence when the Commission's determination "is so wide of the mark as to be outside the realm of fair debate."[31]

27. Having reviewed the record as a whole, the Commission finds the Settlement Agreement is supported by substantial competent evidence.

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[26] *Id.* at 4
[27] See, Docket No. 21-BHCG-418-RTS, Order Approving Unanimous Settlement Agreement, pgs. 6-7 (December 30, 2021).
[28] Testimony in Support of Unanimous Settlement Agreement of William D. Matthews for Atmos Corporation, pg. 15 (February 24, 2023).
[29] Testimony in Support of Settlement & Agreement Prepared by Justin Grady, pgs. 12-15 (February 24, 2023).
[30] *Farmland Indus., Inc. v. Kansas Corp. Comm'n.*, 25 Kan.App.2d 849, 852 (1999).
[31] *Id.* at 851, 856.

The Settlement will Result in Just and Reasonable Rates

28. The System Integrity Program (SIP) is a surcharge, separate from the GSRS that allows Atmos to accelerate replacement of older or at-risk pipelines. This helps Atmos mitigate the risk of incidents that can lead to property damage or death.[32] Accelerated replacement improves system safety and reliability and helps update records to ensure better information for future risk assessments.[33] Parties have agreed to work collaboratively through the issues raised by parties and allow Atmos to file a new request to extend the SIP program. Parties agree to modify current risk assessment to place greater weight on replacement of bare steel service lines.

29. William Matthews testified that the overall budget impact on residential customers will be an increase of 1.2% or $1.03 on their monthly bill.[34]

30. Every gas utility in Kansas is required to provide reasonably efficient and sufficient service and establish just and reasonable rates.[35] The parties represent a variety of interests, including investors, small commercial customers, residential customers and the public generally. The terms of the Agreement are fair and reasonable, and were fully and fairly negotiated by the parties in conjunction with the acknowledgement that it is unlikely the Commission would accept wholesale any party's prefiled position.

31. Justin Grady stated that the rates resulting from the agreement fall within a "zone of reasonableness" which is a balance between the interest of investors versus the interest of ratepayers and the interest of current versus future ratepayers.[36] The agreed upon revenue requirement strikes the proper balance between the company's desire to have a reasonable assurance that it will earn

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[32] Direct Testimony of John M. Willis, pg. 15(September 9, 2022).
[33] *Id.* at 16.
[34] Testimony in Support of Unanimous Settlement Agreement of William D. Matthews for Atmos Corporation, pg. 17 (February 24, 2023).
[35] K.S.A 66-1,202.
[36] Testimony in Support of Settlement & Agreement Prepared by Justin Grady, pgs. 16-17 (Feb. 24, 2023).

sufficient revenues and cash flows to meet its financial obligations.[37] Generally speaking, the public interest is served when ratepayers are protected from unnecessarily high prices and unreliable service.[38] The fact that the settlement is unanimous amongst diverse views supports the contention that the rates will be just and reasonable and in the public interest.[39]

32. Andrea Crane testified on behalf of CURB in support of the unanimous settlement. Crane testified that the settlement is within the zone of reasonableness because the increase in rates was higher than Staff and CURB's positions but was lower than what Atmos wanted. The rate of return is based on capital structures proposed by the parties and the settlement adopts Staff's depreciation rates but allow the Parties to propose different depreciation methodologies in the future.

33. The settlement agreement will increase residential rates 3.36%, but reduce the monthly fixed charge by $0.45 from $20.20 to 19.75.[40]

34. The Commission finds that the cost of the SIP program is reasonable given the safety and reliability benefits to the ratepayers.

The Settlement is in the Public Interest

35. Justin Grady testified that the agreement is in the public interest because it reduces Atmos' requested revenue increase but still provides Atmos with sufficient revenues to meet its financial obligations and provide reliable service.[41] The agreement also avoids costly and time consuming litigation.[42]

36. Andrea Crane testified that the rate increase in the Unanimous Settlement Agreement was within the zone of reasonableness because it was higher than what Staff and CURB wanted but

[37] *Id.* at 17.
[38] *Id.* at 19.
[39] *Id.* at 17.
[40] Andrea C. Crane, Testimony in Support of Unanimous Settlement Agreement, pg. 7 (Feb. 24, 2023).
[41] Testimony in Support of Settlement & Agreement Prepared by Justin Grady, pg. 17 (Feb. 24, 2023).
[42] *Id.* at 20.

lower than what Atmos requested.[43] The settlement Agreement provides flexibility and allows parties to propose different depreciation methods in future rate cases.[44]

37. Crane testified that the agreement is in the public interest because it reasonably allocates the increase amongst various customer classes as well as resolves issues related to depreciation rates without approving a specific depreciation method. It also avoids the cost of unnecessary litigation.[45]

38. Each party has a duty to protect the interest of the party it represents. Atmos has a duty to its customers, employees, and shareholders. Wood River represents the interest of itself and its clients. The Staff and the Commission are in the unique position of being required to weigh and balance the interests of the company, the customers, and the public generally. CURB represents the interests of residential and small commercial customers.

39. This agreement was sufficient to satisfy the diverse interest of all the parties, this supports the notion that the agreement is in the public interest. The total effect of the terms of the Agreement results in just and reasonable rates and represents an equitable balancing of the interest of all the Parties. Therefore, the Agreement is in the public interest.

THEREFORE, THE COMMISSION ORDERS:

A. The Joint Motion to Approve Unanimous Settlement Agreement is granted effective May 9, 2023.

B. Any party may file for reconsideration pursuant to the requirements and time limits established by K.S.A. 77-529(a)(1).[46]

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[43] Andrea C. Crane, Testimony in Support of Unanimous Settlement Agreement, pgs. 5-6 (Feb. 24, 2023).
[44] *Id.* at 6.
[45] *Id.* at 8.
[46] K.S.A. 77-529(a)(1).

BY THE COMMISSION IT IS SO ORDERED.

Duffy, Chair; Keen Commissioner (Dissenting in part), French, Commissioner

Dated: 05/09/2023

Lynn M. Retz
Executive Director

DGC

DISSENTING IN PART OPINION

I support the Commission's findings with one exception, albeit an important one. I would deny Atmos' request to waive the requirement to charge a credit card fee. By waiving the fee for customers paying their gas bill by credit card, those fees are being passed on to all Atmos residential customers, even those customers who choose not to pay by credit card. Rather than force customers who elect to pay by other means to subsidize customers that choose to pay by credit card, I believe those customers who pay by credit card should bear all associated costs and fees. Customers may choose to pay by credit card to get airline miles or other perks, unrelated to natural gas service. Customers that wish to earn airline miles or other perks should pay for those privileges. Likewise, customers who wish to avoid credit card fees by paying their bill by other means, should not be forced to incur fees, when they have received no benefit. I strongly believe it is unfair to make customers who do not pay by credit card subsidize those customers that do. Socializing the costs of paying by credit card is not good public policy. Therefore, I dissent from the Commission's Order. Furthermore, I believe the policy of prohibiting the socialization of these costs should have been adopted by the Commission and designated as precedential, and therefore, applicable with like effect to all of the Commission's regulated utilities.

Dwight D. Keen
Commissioner

EXHIBIT A

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Atmos Energy Corporation for Approval of the Commission to Make Certain Changes in its Rates for Natural Gas Service.	)))	Docket No. 23-ATMG-359-RTS

UNANIMOUS SETTLEMENT AGREEMENT

This Unanimous Settlement Agreement ("Agreement") is entered into between and among the Staff of the State Corporation Commission of the State of Kansas ("Staff"), Atmos Energy Corporation ("Atmos Energy"), the Citizens' Utility Ratepayer Board ("CURB") and WoodRiver Energy LLC ("WoodRiver") (collectively referred to herein as the "Parties" or "Joint Movants"). This Agreement is being submitted to the Commission for its approval pursuant to K.A.R. 82-1-230a.

I. ATMOS ENERGY'S APPLICATION

1. On September 9, 2022, Atmos Energy filed an Application in this docket to make certain changes in its rates and charges for natural gas service. Pursuant to the Commission's Order dated September 15, 2022, the effective date of the Application was suspended until May 8, 2023. On October 12, 2022, the Presiding Officer issued an Order establishing a procedural schedule. By agreement from Atmos Energy the suspension date was extended to May 9, 2023. This matter is currently set for hearing on March 7-9, 2023.

2. On September 13, 2022, CURB requested intervention in this proceeding and was granted intervention on September 20, 2022. On September 26, 2022, WoodRiver filed for intervention, which was approved on October 12, 2022.

3. The schedules filed with Atmos Energy's Application indicated a need to increase base rates by approximately $11.83 million, based upon normalized operating results for the 12

months ending March 31, 2022, adjusted for known and measurable changes in revenues, operating and maintenance expenses, cost of capital and taxes, and other adjustments. As set forth in Atmos Energy's Application, the $11.83 million increase in base rates included rolling into base rates revenues recovered through the Gas System Reliability Surcharge ("GSRS") in the amount of approximately $3.52 million and resetting the GSRS rate to zero (for a net increase of $8.3 million). Atmos Energy proposed an overall rate of return of 8.18 percent. Additionally, Atmos Energy included a depreciation study and sought new depreciation rates for Atmos Energy's Shared Services ("SS") and Colorado/Kansas Office divisions ("CO/KS") as part of its Application. Atmos Energy also requested an increase in the current budget (from $35 million to $50 million) for its System Integrity Program ("SIP") Tariff that was approved in Docket No. 19-ATMG-525-RTS ("19-525 Docket") and a five-year extension of the SIP program and tariff. Atmos Energy requested changes to its transportation tariffs as a direct result of its and its customers' experiences during Winter Storm Uri in February, 2021. Atmos Energy requested changes to its general terms and conditions of service and the elimination of some miscellaneous service fees. Atmos Energy also requested permission to implement a Voluntary Smart Choice Carbon Offset Tariff ("SCCO") Rider that would allow customers on a solely voluntary basis to offset some or all of the carbon emissions associated with their natural gas usage through Atmos Energy's purchase and retirement of Carbon Credits on their behalf. In support of its Application, Atmos Energy submitted the testimony of 9 witnesses and the schedules required by K.A.R. 82-1-231.

II. <u>STAFF AND OTHER PARTIES' PRE-FILED POSITIONS</u>

4. On January 17, 2023, Staff filed its direct testimony (including supporting schedules and exhibits) in the above docket recommending that Atmos Energy be granted a base rate increase (revenue requirement increase) of approximately $5.49 million, which included rebasing the GSRS

revenues of approximately $3.52 million and resetting the GSRS charge to zero (for a net increase of $1.97 million). Staff also recommended an adjustment to Atmos Energy's proposed depreciation rates and made recommendations regarding capital structure, return on equity (ROE) and adjustments to the income statement and rate base. Additionally, Staff addressed Atmos Energy's requests relating to Atmos Energy's SIP tariff. Staff also made recommendations regarding the proposed changes to Atmos Energy's transportation tariff due to Winter Storm Uri and the proposed changes to the other tariff provisions and the elimination of some miscellaneous service fees. Staff supported Atmos Energy's proposed SCCO Rider.

5. On January 17, 2023, CURB filed testimony in which it recommended a revenue deficiency of approximately $5.21 million, which included rebasing the GSRS revenues of approximately $3.52 million in to base rates and resetting the GSRS charge to zero (for a net increase of $1.69 million). CURB addressed Atmos Energy's requests relating to the Company's SIP tariff. CURB also made recommendations regarding the proposed changes to Atmos Energy's transportation tariff due to Winter Storm Uri and the proposed changes to the other tariff provisions and the elimination of some miscellaneous service fees. CURB supported Atmos Energy's proposed SCCO Rider provided that it be implemented as a five-year pilot program.

6. WoodRiver filed direct testimony and cross-answering testimony objecting to certain of Atmos Energy's proposed changes to its transportation tariffs primarily as they related to schools.

7. Atmos Energy filed rebuttal testimony on February 10, 2023.

8. Subsequently, on February 15, 2023, Atmos Energy, Staff, CURB, and WoodRiver met to discuss the possible settlement of the issues in this matter. The Joint Movants were able to reach a settlement agreement in principle resolving all issues in the case. This Settlement Agreement ("Agreement") was executed on February 21, 2023. The resolution of the issues are set forth in this

Agreement. Since all parties to the docket signed this Agreement, it is considered a unanimous settlement agreement under the Commission's regulations (K.A.R. 82-1-230a).

9. The Joint Movants believe that this Agreement represents a reasonable and fair resolution of this matter and that the terms contained therein are in the public interest. Joint Movants believe that this Agreement satisfies the three factors that the Commission considers when reviewing a proposed settlement agreement.

III. SETTLEMENT PROVISIONS

10. **Stipulated Revenue Requirement and GSRS Rebasing.** The Parties agree that Atmos Energy's overall annual revenue increase to base rates shall be $5,715,823, which is inclusive of each parties' view of rate case expense. The Parties agree that Atmos Energy shall roll into base rates the GSRS revenues in the amount of $3,515,823 and reset the GSRS charge to zero. The GSRS revenues are included in the $5,715,823 annual revenue increase agreed to by the Parties, making the net annual increase approximately $2,200,000.

11. **Depreciation Rates.** The Parties agree the revenue requirement specified in paragraph 10 above includes Staff's Shared Service depreciation expense consistent with the depreciation rates proposed by Staff and set forth in **Appendix A** to this Settlement. The Parties also agree that the revenue requirement specified in paragraph 10 above includes the Colorado/Kansas division depreciation rates proposed by Atmos Energy. Atmos Energy agrees it will adopt the depreciation rates in **Appendix A**. By agreeing to Atmos Energy's depreciation proposal, Staff is not agreeing to any policy recommendations made by Atmos Energy Witness Watson. The Parties agree the policy recommendations made by Staff Witness McCullar and Atmos Energy Witness Watson regarding ALG v. ELG may be addressed in future general rate case filings.

12. **GSRS and SIP Carrying Charge.** For purposes of calculating Atmos Energy's

GSRS and SIP, the carrying charges to be applied to recoverable investments in such filings shall be calculated using a pre-tax rate of return of 8.70%, which is based on state and federal tax rates in effect as of the date of this Agreement. The Parties agree this carrying charge is solely for purposes of GSRS and SIP filings and is not precedential for any other purpose.

13. **Capital Structure.** The Parties agree that nothing in this Agreement constitutes an agreement by the Parties to the capital structure proposals presented in this case and this Agreement does not prevent the Parties from challenging such proposals in the future.

14. **SIP Tariff.** (a) Atmos Energy shall be allowed to withdraw its request to increase the budget amount for the remaining term of the five-year SIP pilot program from $35 million to $50 million. Atmos Energy shall also be allowed to withdraw without prejudice its request to extend the SIP program for an additional five-year period. The Parties have agreed to collaboratively work through the issues raised by the Parties in this case relating to the extension of the SIP program with Atmos Energy being allowed to file a new request with the Commission to extend the SIP program either in a separate application or in a subsequent general rate case filing prior to the expiration of the pilot program.

(b) With respect to the existing SIP pilot program, and in order to address the three recommendations included in the direct testimony filed by Mr. Haynos, the Parties agree to the following provisions:

i. While Atmos Energy's risk assessment model does currently account for the risk associated with bare steel service lines, Atmos Energy agrees that the program could be enhanced by modifying the current model as proposed by Mr. Haynos to place a greater weight on the risk associated with bare steel service lines. Atmos Energy agrees to adjust the risk-ranking accordingly when prioritizing pipe replacement projects, that includes mains and associated bare steel service lines, beginning with the projects identified for Year Four of the currently approved SIP.

ii. With respect to the recommendation by Mr. Haynos that replacement of plastic pipe manufactured after 1983 should not be recovered through SIP, the Parties agree that the cost of replacing pipe segments greater than 100 feet in length of recently installed (post 1983) plastic pipe placed in low pressure service shall not be recovered through the SIP charge unless Atmos Energy can show at the time it makes its filing for approval of the SIP charge that either (i) the replacement of the installed (post 1983) plastic pipe was equally or more cost effective than uprating the existing pipe, or (ii) the replacement is necessary to comply with state or federal safety requirements applicable at that time, and such is accepted by the Commission. If the Commission determines that Atmos Energy has shown that the replacement of the installed (post-1983) plastic pipe was equally or more cost effective than uprating the existing pipe or that the replacement is necessary to comply with state or federal safety requirements, then the replacement cost shall be recovered through the SIP charge. If the Commission determines that Atmos Energy has not shown that the replacement of the installed (post-1983) plastic pipe was equally or more cost effective than uprating the existing pipe and that the replacement is not required by state or federal safety requirements, then the replacement cost shall not be recovered through the SIP charge and Atmos Energy can request recovery of the replacement cost in its next general rate case filed after the replacement projects in question have been placed in service but not to be included in this current rate case. Staff and CURB shall have the right to challenge any showing by Atmos Energy that the replacement of the installed (post-1983) plastic pipe was equally or more cost effective than uprating the existing pipe or that the replacement is not required by state or federal safety requirements. This provision shall apply to Year Three (2023), Four (2024) and Five (2025) approved SIP projects.

iii. With respect to the recommendation made by Mr. Haynos that Atmos Energy should provide an in-depth description of the cause of any failure for each leak discovered on plastic piping so it can be determined if the failure was due to the pipe's material, Atmos Energy agrees to provide the Commission with an in-depth description of the results of its leak investigation for each leak discovered and ultimately uncovered for a root cause analysis on plastic piping based on available information and include such description in its annual report filed in compliance with the 343 Docket. When the pipe is exposed through the leak repair process, more information is available to Atmos Energy to determine the root cause of the leak. However, the process for addressing leaks under pavement or on service lines involves a process that does not result in exposing the leak. As a result of this and other limitations on available information that arise during the investigation process, it is not always possible to determine with certainty the exact cause of a leak in those circumstances. In those cases, Atmos Energy agrees to note why it was unable to expose the leak to determine the root cause of the leak.

15. **Ad Valorem Surcharge Rider.** For purposes of filing Atmos Energy's Ad Valorem Surcharge Rider (all subsequent years until rebased in Atmos Energy's next base rate case), the Parties agree that the ad valorem expenses embedded in base rates shall be $8,597,886 ($8,737,864 gross assessment, net of $139,978 capitalized to CWIP).

16. **Amortization Periods.** Amortization periods and/or expenses are established as follows:

(a) Atmos Energy's actual rate case expense shall be amortized over three years;

(b) Atmos Energy's Pension and OPEB deferrals in the amounts of $(273,567) and $1,159,782 respectively shall be amortized over three years $(91,189) and $386,594 per year, respectively;

(c) With respect to item 7(b) above, Atmos Energy shall have the right to recover any over-amortized amount relating to Pension and OPEB deferrals, and with respect to item 7(a), Atmos Energy reserves the right to seek recovery of any unamortized amount relating to rate case expense, with the understanding that Staff and CURB reserve their right to object to the recovery of any unamortized amount relating to rate case expense, including the arguments raised in Staff witness Ian Campbell's Direct Testimony; and

(d) The revenue requirement set in this case includes the flow back of Unprotected Excess Accumulated Deferred Income Tax ("EDIT") and the flow back due to the State of Kansas income tax rate elimination. The flow back adjustment decreases income tax expense by $6,135,433, which includes $2,982,437 for federal tax expense and $3,152,996 for state income tax expense, and recognizes the effect of amortizing the federal accumulated deferred income taxes on Atmos Energy's income tax expense over five years and state excess accumulated deferred income taxes on Atmos Energy's income tax expense over three years.

17. **Pension and OPEB Trackers.** For the purposes of calculating Atmos Energy's pension and OPEB tracker going forward, the Parties agree that the base rates agreed to in this Agreement include the following expenses:

(a) Atmos Energy's Pension Expense:

Kansas Direct: $114,085

Shared Services Divisions: $45,914

CO/KS Division: $14,518

(b) Atmos Energy's OPEB Expense:

Kansas Direct: ($263,741)

Shared Services Divisions: $22,340

CO/KS Division: ($274,447)

18. **Allocation of Costs to Customers Classes in GSRS and SIP Filings.** For allocating costs among customer classes in subsequent GSRS and SIP filings, such costs shall be allocated among Atmos Energy's classes of customers based on the rate allocation approved in this rate case and as reflected in **Appendix B** attached hereto.

19. **Class Cost of Service and Rate Design.** The Parties agree the annual revenue requirement increase shall be allocated among the respective classes of customers according to the amounts indicated for each class as shown in Appendix B attached hereto. The Parties agree to the facilities charges and commodity charges for each class as shown on **Appendix B** attached hereto.

20. **Billing Determinants; Weather Normalization Adjustment; Customer Annualization Adjustment.** The Parties agree to use Atmos Energy's billing determinants, weather normalization adjustment and customer annualization recommendation, as adjusted by Staff Witness Ellis, to calculate the billing determinants and WNA factors to be used to determine Atmos Energy's WNA adjustment.

21. **General Terms and Conditions and Miscellaneous Service Fees.**

(a) Atmos Energy agrees to include in its proposed changes to its tariffs and general terms and conditions the changes included in Staff witness Prentiss's testimony.

(b) Atmos Energy agrees to withdraw its request to eliminate its miscellaneous service charges.

22. **Transportation Tariff Issues.**

(a) The Parties agree that the Commission should approve Atmos Energy's request, as amended by this settlement and which amended request will be captured in a compliance filing with the Commission containing revised tariff language, to require Electronic Flow Measurement ("EFM") equipment for all transportation customers, except for existing smaller use meters that have been historically aggregated in order to qualify for transportation service, and school customers using less than 3,000 Dth/year, by November 1, 2024, or be converted to sales service. The November 1, 2024, deadline may be extended in the event of delays caused by labor availability and supply chain disruptions. The deadline may also be extended in the event the customer has a preexisting multi-year contract that expires after November 1, 2024. School customers using less than 3,000 Dth/year will instead be required to deliver a specified quantity of natural gas during critical days and or/Operational Flow Orders, as determined and timely communicated by Atmos Energy. The Parties agree to work in good faith to jointly develop tariff language pertaining to this requirement, and the consequences of small schools under-delivering the required quantities of natural gas, with such language to be presented in a compliance filing to the Commission.

(b) The Parties agree that Atmos Energy will pay for EFM equipment for school transportation customers that use at least 3,000 Dth/year, and Atmos Energy will recover the actual costs of those conversions in a regulatory asset with a carrying cost at its approved rate of return for the GSRS/SIP. The parties agree that Atmos Energy will request that this regulatory asset balance be recovered over a nine year amortization period from all Transportation customers in the next rate case.

(c) The Parties agree that the Commission should not approve Atmos Energy's request to eliminate the option for transportation customers to pay for the EFM equipment through a monthly charge, instead of the upfront cost of $4,300. That initial charge will be set at $63.26/month, which is calculated as a level-payment financing over the nine years. This charge shall be charged for the duration of the customer's service as a transportation customer, not to exceed nine years. If the customer leaves transportation service to move to sales service before the nine years is up, Atmos Energy agrees to bill the transportation customer for the remaining balance of the EFM cost. Atmos Energy shall be allowed to request an increase in the current monthly charge by filing an application in a separate docket and providing support for any increase in the monthly charge. The Parties reserve their respective rights to challenge any increase in the monthly charge requested by Atmos Energy in that separate docket.

(d) The Parties agree that the Commission should approve Atmos Energy's request to change its transportation tariff to require an Atmos Energy administered wireless communication line for the reasons set forth in Mr. Leivo's direct testimony which was adopted by Mr. Fogle. Atmos Energy shall be required to list the charge for wireless communication service in its Schedule II service fees. Atmos Energy shall make a compliance filing identifying the fee and submitting support for that fee in the compliance filing. This fee may be updated periodically based on current actual costs through a compliance tariff filing or in conjunction with a general rate case.

(e) Recognizing the exceptions identified in paragraph (a) above, the Parties agree that Atmos Energy shall change its transportation tariffs to require all new transportation customers, after November 1, 2024, to have a minimum annual gas usage of 1,500 MMBtu in any month or 5,000 MMBtus of natural gas in a year. The minimum usage requirement would not apply to schools or any existing transportation customer.

23. **Smart Choice Carbon Offset Tariff ("SCCO") Rider.** The Parties agree that Atmos Energy's proposed SCCO rider as corrected and set forth in Rebuttal Exhibit GLS-3 should be approved by the Commission on a pilot basis. The parties agree that a re-evaluation of the program's reasonableness and effectiveness should be completed before the end of a six year time frame.

24. The parties agree that Atmos Energy shall be effectively granted a waiver from the Commission's minimum payment standards pertaining to the requirement to charge a fee for customers that choose to pay their bills with a debit or credit card.

IV. MISCELLANEOUS PROVISIONS

A. THE COMMISSION'S RIGHTS

25. Nothing in this Agreement is intended to impinge or restrict, in any manner, the exercise by the Commission of any statutory right, including the right of access to information, and any statutory obligation, including the obligation to ensure that Atmos Energy is providing efficient and sufficient service at just and reasonable rates.

B. PARTIES' RIGHTS

26. The Parties, including Staff, shall have the right to present pre filed testimony in support of this Agreement. Such testimony shall be filed formally in the docket and presented by witnesses at a hearing on this Agreement. Such testimony shall be filed on or before February 24, 2023, as required by the procedural schedule filed in this docket.

C. WAIVER OF CROSS EXAMINATION AND POST HEARING BRIEFS

27. The Parties agree to waive cross examination on all testimony filed prior to the filing of this Agreement. The Parties agree that all such pre-filed testimony and exhibits may be incorporated into the record without objection. The Parties agree to waive filing of post-hearing briefs.

D. NEGOTIATED SETTLEMENT

28. This Agreement represents a negotiated settlement that fully resolves all of the issues in this docket among the Parties. The Parties represent that the terms of this Agreement constitute a fair and reasonable resolution of the issues addressed herein. Except as specified herein, the Parties shall not be prejudiced, bound by, or in any way affected by the terms of this Agreement (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Agreement in the instant proceeding. If the Commission accepts this Agreement in its entirety and incorporates the same into a final order without material modification, the Parties shall be bound by its terms and the Commission's order incorporating its terms as to all issues addressed herein and in accordance with the terms hereof, and will not appeal the Commission's order on these issues.

E. INTERDEPENDENT PROVISIONS

29. The provisions of this Agreement have resulted from negotiations among the Parties and are interdependent. In the event that the Commission does not approve and adopt the terms of this Agreement in total, the Agreement shall be voidable and no party hereto shall be bound, prejudiced, or in any way affected by any of the agreements or provisions hereof. Further, in such event, this Agreement shall be considered privileged and not admissible in evidence or made a part of the record in any proceeding.

F. SUBMISSION OF DOCUMENTS TO THE COMMISSION OR STAFF

30. To the extent this Agreement provides for information, documents or other data to be furnished to the Commission or Staff, such information, documents or data shall be filed with the Commission and a copy served upon the Commission's Director of Utilities. Such information, documents, or data shall be marked and identified with the docket number of this proceeding.

IN WITNESS WHEREOF, the Parties have executed and approved this Stipulated Settlement Agreement, effective as of the 21st day of February, 2023, by subscribing their signatures below.

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ATMOS ENERGY - SHARED SERVICES UNIT
SUMMARY OF DEPRECIATION RATES & ANNUAL ACCRUAL

			Current Approved		Atmos Proposed-ELG			Staff Proposed-ALG			
Account	Description	9/30/19 Investment	Accrual Rate	Annual Accrual	Accrual Rate	Annual Accrual	Difference from Current	Accrual Rate	Annual Accrual	Difference from Current	Difference from Company
A	B	C	D	E	F	G	H=G-E	I	J=C*I	K=J-E	L=J-G
39000	Structures & Improvements	35,954,768	2.33%	837,746	2.38%	857,131	19,385	1.90%	683,065	(154,681)	(174,066)
39009	Improvements - Leased	12,035,696	3.12%	375,514	5.13%	617,787	242,273	5.24%	630,658	255,144	12,872
39100	Office Furniture & Equipment	9,098,413	3.69%	335,731	6.60%	600,829	265,098	6.26%	569,112	233,380	(31,717)
39200	Transportation Equipment	103,416	6.47%	6,691	6.29%	6,508	(183)	4.98%	5,150	(1,541)	(1,358)
39400	Tools Shop And Garage Equipment	606,029	8.29%	50,240	13.04%	79,007	28,767	13.04%	79,033	28,793	26
39500	Laboratory Equipment	23,632	8.28%	1,957	9.70%	2,292	335	8.64%	2,042	85	(250)
39700	Communication Equipment	3,269,128	5.69%	186,013	6.72%	219,554	33,540	5.86%	191,468	5,454	(28,086)
39800	Miscellaneous Equipment	741,800	5.35%	39,686	7.24%	53,740	14,053	6.58%	48,821	9,134	(4,919)
39900	Other Tangible Equipment	295,692	12.70%	37,553	14.96%	44,241	6,688	14.48%	42,821	5,268	(1,420)
39901	Servers-Hardware	33,275,869	7.82%	2,602,173	13.30%	4,426,644	1,824,471	12.49%	4,157,569	1,555,396	(269,075)
39902	Servers-Software	12,446,587	7.18%	893,665	10.63%	1,323,468	429,803	10.31%	1,283,798	390,133	(39,670)
39903	Network Hardware	5,427,398	6.99%	379,375	10.34%	561,162	181,787	10.10%	548,309	168,934	(12,853)
39906	PC Hardware	3,181,360	10.15%	322,908	17.92%	570,020	247,112	16.36%	520,553	197,645	(49,467)
39907	PC Software	1,511,357	6.44%	97,331	10.75%	162,406	65,074	9.63%	145,544	48,212	(16,862)
39908	Application Software	211,721,688	5.11%	10,818,978	7.55%	15,989,991	5,171,013	5.80%	12,273,684	1,454,705	(3,716,308)
	Total	329,692,833		16,985,562	7.74%	25,514,780	8,529,218	6.42%	21,181,625	4,196,063	(4,333,155)

Sources:
Exhibit DAW-3
"Atmos SSU 2019 Accrual" provided in response to Staff 1-001.

ATMOS ENERGY - SHARED SERVICES UNIT
CALCULATION OF DEPRECIATION ACCRUAL RATE

Account	Description	9/30/19 Investment	9/30/19 Book Reserve	Book Reserve Percent	Future Net Salvage Percent	Remaining Life	Calculated Annual Rate	Calculated Annual Accrual
		A	B	C=B/A	D	E	F=(1-C-D)/E	G=A*F
39000	Structures & Improvements	35,954,768	7,245,549	20.15%	0%	42.03	1.90%	683,065
39009	Improvements - Leased	12,035,696	8,743,660	72.65%	0%	5.22	5.24%	630,658
39100	Office Furniture & Equipment	9,098,413	4,488,607	49.33%	0%	8.10	6.26%	569,112
39200	Transportation Equipment	103,416	53,934	52.15%	10%	7.60	4.98%	5,150
39400	Tools Shop And Garage Equipment	606,029	301,752	49.79%	0%	3.85	13.04%	79,033
39500	Laboratory Equipment	23,632	15,791	66.82%	0%	3.84	8.64%	2,042
39700	Communication Equipment	3,269,128	1,869,500	57.19%	0%	7.31	5.86%	191,468
39800	Miscellaneous Equipment	741,800	293,626	39.58%	0%	9.18	6.58%	48,821
39900	Other Tangible Equipment	295,692	100,002	33.82%	0%	4.57	14.48%	42,821
39901	Servers-Hardware	33,275,869	17,518,682	52.65%	0%	3.79	12.49%	4,157,569
39902	Servers-Software	12,446,587	6,541,118	52.55%	0%	4.60	10.31%	1,283,798
39903	Network Hardware	5,427,398	2,954,523	54.44%	0%	4.51	10.10%	548,309
39906	PC Hardware	3,181,360	1,489,562	46.82%	0%	3.25	16.36%	520,553
39907	PC Software	1,511,357	632,273	41.83%	0%	6.04	9.63%	145,544
39908	Application Software	211,721,688	87,880,219	41.51%	0%	10.09	5.80%	12,273,684
	Total	329,692,833	140,128,799	42.50%			6.42%	21,181,625

ATMOS ENERGY - SHARED SERVICES UNIT
PARAMETER REPORT

		Current			Company Proposed				Staff Proposed			
Account	Description	P.L. or AYFR	Iowa Curve Shape	Future Net Salvage	P.L. or AYFR	Iowa Curve Shape	ELG Rem. Life	Future Net Salvage	P.L. or AYFR	Iowa Curve Shape	ALG Rem. Life	Future Net Salvage
		A	B	C	D	E	F	G	H	I	J	K
39000	Structures & Improvements	40	R2	0%	50	R2	33.49	0%	50	R2	42.03	0%
39009	Improvements - Leased	20	R4	0%	20	R4	5.33	0%	20	R4	5.22	0%
39100	Office Furniture & Equipment	22	L4	0%	16	R4	7.67	0%	16	R4	8.10	0%
39200	Transportation Equipment	10	L2	10%	15	L2	6.01	10%	15	L2	7.60	10%
39400	Tools Shop And Garage Equipment	11	S6	0%	8	S6	3.85	0%	8	S6	3.85	0%
39500	Laboratory Equipment	10	R2	0%	10	R2	3.42	0%	10	R2	3.84	0%
39700	Communication Equipment	15	R5	0%	15	R2	6.37	0%	15	R2	7.31	0%
39800	Miscellaneous Equipment	15	S3	0%	15	S3	8.34	0%	15	S3	9.18	0%
39900	Other Tangible Equipment	7	R5	0%	7	R5	4.42	0%	7	R5	4.57	0%
39901	Servers-Hardware	9	R4	0%	8	R4	3.56	0%	8	R4	3.79	0%
39902	Servers-Software	9	S5	0%	10	R5	4.46	0%	10	R5	4.60	0%
39903	Network Hardware	10	SQ	0%	10	R4	4.41	0%	10	R4	4.51	0%
39906	PC Hardware	6	S3	0%	6	S3	2.97	0%	6	S3	3.25	0%
39907	PC Software	10	R3	0%	10	R3	5.41	0%	10	R3	6.04	0%
39908	Application Software	15	L1.5	0%	15	L1.5	7.74	0%	15	L1.5	10.09	0%

Atmos Energy - Colorado Kansas General Office
Depreciation Study as of September 30, 2021
Comparison of Parameters

		Approved Parameters					Proposed Parameters				
Account	Description	ASL	Curve	Salvage %	COR %	Net Salvage %	ASL	Curve	Salvage %	COR %	Net Salvage %
39009	Improvements to Leased Property	10	SQ	0%	0%	0%	20	SQ	0%	0%	0%
39100	Office Furniture and Equipment	15	R1.5	0%	0%	0%	20	R1.5	0%	0%	0%
39103	Office Machines	15	R1.5	0%	0%	0%	20	R1.5	0%	0%	0%
39200	Transportation Equipment	5	SQ	0%	0%	0%	10	L4	0%	0%	0%
39400	Tools, Shop, and Garage Equipment	9	S5	0%	0%	0%	10	S5	0%	0%	0%
39500	Laboratory Equipment	10	SQ	0%	0%	0%	10	S5	0%	0%	0%
39700	Communication Equipment	12	S5	0%	0%	0%	12	S5	0%	0%	0%
39800	Miscellaneous Equipment	8	L5	0%	0%	0%	8	L5	0%	0%	0%
39901	Servers Hardware	7	SQ	0%	0%	0%	7	R4	0%	0%	0%
39902	Servers Software	7	SQ	0%	0%	0%	7	R4	0%	0%	0%
39903	Network Hardware	8	SQ	0%	0%	0%	7	S6	0%	0%	0%
39906	PC Hardware	5	SQ	0%	0%	0%	4	SQ	0%	0%	0%
39907	PC Software	6	SQ	0%	0%	0%	4	SQ	0%	0%	0%

Atmos Energy - Colorado Kansas General Office
Depreciation Study as of September 30, 2021
Calculation of Depreciation Accrual Remaining Life - ELG
With Reserve Reallocation

Account	Description	Plant Balance	Allocated Book Reserve	Net Salvage %	Net Salvage Amount	Unaccrued Balance	Remaining Life	Annual Accrual Amount $	Annual Accrual Rate %
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
39009	Improvements to Leased Premise	$ 280,309.53	$ 190,475.17	0%	$ -	$ 89,834.36	9.05	$ 9,924.21	3.54%
39100	Office Furniture and Equipmen	399,117.90	253,207.10	0%	-	145,910.80	10.02	14,565.01	3.65%
39200	Transportation Equipmen	25,513.33	22,545.90	0%	-	2,967.43	2.95	1,005.05	3.94%
39700	Communication Equipmen	39,177.35	28,094.69	0%	-	11,082.66	4.99	2,219.87	5.67%
39901	Servers Hardware	48,327.95	44,982.59	0%	-	3,345.36	1.18	2,827.67	5.85%
39903	Network Hardware	121,151.02	95,484.04	0%	-	25,666.98	2.00	12,854.74	10.61%
39906	PC Hardware	122,046.67	77,709.20	0%	-	44,337.47	1.77	25,021.46	20.50%
39907	PC Software	32,412.01	29,610.41	0%	-	2,801.60	0.36	7,825.25	24.14%
	Total Depreciable Plant	**$ 1,068,055.76**	**$ 742,109.10**		**$ -**	**$ 325,946.66**		**$ 76,243.26**	**7.14%**

Note: Accounts below have zero balance. Recommend the following whole life (1-NS%/ASL) rates for new additions.

39400	Tools, Shop and Garage Equipmer	10.00%
39800	Miscellaneous Equipmen	12.50%

Staff's Class Revenue Allocation							
Customer Classes	Current Revenue	% of Total Revenue	Class Rate of Return	Relative Rate of Return	Class Revenue Allocation $ 2,200,000	Class % Increase	Proposed Revenue Allocation
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Residential Sales Service	$ 47,064,272	71.5%	6.44%	0.96	**$ 1,581,535**	3.360%	**$ 48,645,807**
Commercial Sales Service	$ 10,850,660	16.5%	8.36%	1.25	**$ 381,800**	3.272%	**$ 12,050,034**
Public Authority Sales Service	$ 817,574	1.2%	8.36%	1.25			
School Sales Service	$ 110,317	0.2%	4.35%	0.65	**$ 3,800**	3.445%	**$ 114,117**
Industrial Sales Service	$ 110,794	0.2%	1.45%	0.22	**$ 4,100**	3.701%	**$ 114,894**
Small Generator Sales Service	$ 42,462	0.1%	1.54%	0.23	**$ 1,560**	3.674%	**$ 44,022**
Large Industrial Sales Serv - Interruptible <20,000	$ 26,112	0.1%	-2.22%	(0.33)	**$ 3,150**	4.257%	**$ 77,146**
Large Industrial Sales Serv - Interruptible >20,000	$ 47,884						
Irrigation Engine Sales Service	$ 1,349,556	2.0%	1.92%	0.29	**$ 49,500**	3.668%	**$ 1,399,056**
TOTAL Sales	$ 60,419,631	91.8%			**$ 2,025,445**	3.352%	**$ 62,445,076**
Firm Transportation Serv Commercial	$ 3,139,692	4.8%	9.47%	1.42	**$ 99,180**	3.128%	**$ 3,238,872**
School Transportation Service Post '95	$ 742,538	1.1%	5.46%	0.82	**$ 25,215**	3.396%	**$ 767,753**
Firm Transportation Serv - Industrial	$ 30,686	0.0%	9.47%	1.42			**$ 30,686**
Irrigation Transportation	$ 167,962	0.3%	11.42%	1.71	**$ 5,200**	3.096%	**$ 173,162**
	$ -						
Interruptible Transportation Serv - Industrial <20,000	$ 703,210	1.1%	6.29%	0.94	**$ 44,960**	3.360%	**$ 1,383,083**
Interruptible Transportation Serv - Industrial >20,000	$ 634,913	1.0%	6.29%	0.94			
TOTAL Transportation	$ 5,419,001	8.2%			**$ 174,555**	3.221%	**$ 5,593,556**
TOTAL: Sales and Transportation	$ 65,838,632	100.0%	6.69%	1.00	**$ 2,200,000**	3.342%	**$ 68,038,632**

Atmos Revenue with Staff's Proposed Rates and Bill Count & Volumetric Usage

Customer Classes	Number of Bills	Total Volumes	Proposed Rates: Facilities Charge	Proposed Rates: Commodity Charge	Facilities Charge Revenue	Commodity Charge Revenue	Total Revenue	Proposed Revenue Allocation
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(g)
Residential Sales Service	1,533,223	107,330,735	$ 19.75	$ 0.17110	$ 30,281,152	$ 18,364,289	$ 48,645,441	$ 48,645,807
Commercial Sales Service	111,108	36,736,199	$ 50.00	$ 0.15382	$ 5,555,424	5,650,762	12,049,804	$ 12,050,034
Public Authority Sales Service	7,897	2,917,609	$ 50.00	$ 0.15382	$ 394,831	448,787		$ -
School Sales Service	776	389,927	$ 62.50	$ 0.16830	$ 48,516	65,625	114,141	$ 114,117
Industrial Sales Service	162	604,941	$ 104.00	$ 0.16200	$ 16,881	98,001	114,882	$ 114,894
Small Generator Sales Service	874	1,928	$ 50.00	$ 0.16000	$ 43,677	308	43,985	$ 44,022
Large Industrial Sales Serv - Interruptible <20,000	16	240,000	$ 330.00	$ 0.09660	$ 5,280	$ 23,184	28,464	$ 77,146
Large Industrial Sales Serv - Interruptible >20,000		590,000		$ 0.08259		$ 48,728	48,728	$ -
Irrigation Engine Sales Service	3,199	9,196,930	$ 100.00	$ 0.11735	$ 319,900	1,079,260	1,399,160	$ 1,399,056
TOTAL Sales	1,657,255	158,008,270			$ 36,665,661	$ 25,778,944	$ 62,444,605	$ 62,445,076
Firm Transportation Serv Commercial	2,003	19,194,340	$ 150.00	$ 0.15305	$ 300,450	$ 2,937,694	$ 3,238,144	$ 3,238,872
School Transportation Service Post '95	2,860	2,832,611	$ 109.00	$ 0.16100	$ 311,740	$ 456,050	$ 767,790	$ 767,753
Firm Transportation Serv - Industrial	12	194,833	$ 150.00	$ 0.15305	$ 1,800	$ 29,819	$ 31,619	$ 30,686
Irrigation Transportation	313	1,227,269	$ 143.00	$ 0.10420	$ 44,759	$ 127,881	$ 172,640	$ 173,162
								$ -
Interruptible Transportation Serv - Industrial <20,000	392	5,662,746	$ 418.00	$ 0.10690	$ 163,856	$ 605,348	$ 769,204	$ 1,383,083
Interruptible Transportation Serv - Industrial >20,000		8,005,461		$ 0.07670		$ 614,019	$ 614,019	
TOTAL Transportation	5,580	37,117,261			$ 822,605	$ 4,770,811	$ 5,593,416	$ 5,593,556
TOTAL: Sales and Transportation	1,662,835	195,125,531			37,488,266	30,549,755	68,038,021	$ 68,038,632

Atmos Revenue with Current Rates with Atmos's Bill Count & Volumetric Usage				
	Current Rates		Proposed Rates	
Customer Classes	Facilities Charge	Commodity Charge	Facilities Charge	Commodity Charge
SALES CLASSES	(c)	(d)	(c)	(d)
Residential Sales Service	20.20	0.14994	19.75	0.17110
Commercial Sales Service	47.64	0.15128	50.00	0.15382
Public Authority Sales Service	47.64	0.15128	50.00	0.15382
School Sales Service	58.47	0.16651	62.50	0.16830
Industrial Sales Service	90.82	0.15878	104.00	0.16200
Small Generator Sales Service	48.89	(0.12691)	50.00	0.16000
Large Industrial Sales Serv - Interruptible <20,000	347.13	0.08566	330.00	0.09660
Large Industrial Sales Serv - Interruptible >20,000		0.08116		0.08259
Irrigation Engine Sales Service	96.77	0.11308	100.00	0.11735
TRANSPORTATION CLASSES				
Firm Transportation Serv Commercial	142.15	0.14874	150.00	0.15305
School Transportation Service Post '95	102.29	0.15886	109.00	0.16100
Firm Transportation Serv - Industrial	142.15	0.14874	150.00	0.15305
Irrigation Transportation	143.15	0.10035	143.00	0.10420
Interruptible Transportation Serv - Industrial <20,000	482.66	0.09077	418.00	0.10690
Interruptible Transportation Serv - Industrial >20,000		0.07931		0.07670

CERTIFICATE OF SERVICE

23-ATMG-359-RTS

I, the undersigned, certify that a true copy of the attached Order has been served to the following by means of electronic service on 05/09/2023.

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23-ATMG-359-RTS

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/S/ KCC Docket Room
KCC Docket Room

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

<u>O R D E R</u>

Atmos Energy Corporation (Atmos Energy) is a utility that delivers natural gas to approximately three million ratepayers in eight states. Atmos Energy has six gas utility operating divisions located in Denver, Colorado (Colorado/Kansas Division); Baton Rouge, Louisiana (Louisiana Division); Flowood, Mississippi (Mississippi Division); Lubbock, Texas (West Texas Division); Dallas, Texas (Mid-Tex Division); and Franklin, Tennessee (Kentucky/Mid-States Division). Atmos Energy's corporate offices are in Dallas, Texas and provide services to its operating divisions such as accounting, legal, human resources, rate administration, procurement, information technology, and customer service organizations. Atmos Energy also has two customer contact centers located in Amarillo and Waco, Texas. The costs of these centralized services are shared with the other Atmos Energy operating divisions, including the Kentucky/Mid-States division. Atmos Energy's regulated gas distribution operation in Kentucky (Atmos Kentucky) serves approximately 179,900 residential, commercial, and industrial customers in central and western Kentucky, with 159,800 of those being residential class customers.[1] Atmos Kentucky last filed for an adjustment of its gas rates in Case No. 2018-00281, which had a final order issued on May 8, 2019.[2]

BACKGROUND

Atmos Kentucky filed an application for an adjustment of rates on June 30, 2021. The application requested an overall rate increase of 9.4 percent or approximately $16.390 million in annual revenue and an increase of 9.6 percent for the average residential customer. Following discovery, the requested increase was reduced to $15.131 million or an 8.8 percent increase on rebuttal. Atmos Kentucky's application was initially rejected due to a filing deficiency, which was cured on July 20, 2021. Pursuant to an Order issued on July 23, 2020, the Commission found that an investigation would be necessary to determine the reasonableness of Atmos Kentucky's proposed rates and suspended the proposed rates for a period of six months, from August 19, 2021, up to and including February 18, 2021, pursuant to KRS 278.190(2). The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) is an intervenor in this proceeding. Pursuant to a procedural schedule established on July 23, 2021 and amended July 30, 2021, Atmos Kentucky filed direct and rebuttal testimony, and responded to multiple rounds of discovery. The Attorney General filed direct testimony and responded to one round of discovery. A three-day hearing was scheduled for December 14-16, 2021. The hearing was canceled due to an emergency created by tornados in the utility's service territory. The parties submitted

[1] Application at 3.

[2] Case No. 2018-00281, *Electronic Application of Atmos Energy Corporation for an Adjustment in Rates* (Ky. PSC June 12, 2019).

briefs to the Commission for consideration on January 14, 2022. This mater now stands submitted for a decision based upon the written record.

LEGAL STANDARD

The Commission's statutory obligation when reviewing a rate application is to determine whether the proposed rates are "fair, just and reasonable."[3] Applying that standard, the Commission has held that cost-based rates for investor-owned utilities should be set at a level to allow the utility to recover its reasonable expenses and provide its shareholders an opportunity to earn a fair return on invested capital.[4] However, when a utility proposes a rate increase, "the burden of proof to show that the increased rate or charge is just and reasonable shall be upon the utility."[5] The Commission must review the record in its entirety and apply its expertise to make an independent decision as to the level of rates that should be approved, including terms and conditions of service.

TEST PERIOD

Atmos Kentucky proposed the 12 months ending December 31, 2022, as its forecasted test period to determine the reasonableness of its proposed rates.[6] The

[3] *See Kentucky Pub. Serv. Comm'n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky.2010) ("Because utilities are allowed to charge consumers only 'fair, just, and reasonable rates' under KRS 278.030(1), the [Commission] must ensure that utility rates are fair, just, and reasonable to discharge its duty under KRS 278.040 to ensure that utilities comply with state law.").

[4] Case No. 2017-00481, *An Investigation of the Impact of the Tax Cuts and Job Act on the Rates of Atmos Energy Corporation, Delta Natural Gas Company, Inc., Columbia Gas of Kentucky, Inc., Kentucky-American Water Company, and Water Service Corporation of Kentucky* (Ky. PSC Dec. 27, 2017), Order at 1-2; *see also Com. ex. rel. Stephens v. South Central Bell Tel. Co.*, 545 S.W.2d 927, 931 (Ky. 1976) ("Rates are non-confiscatory, just and reasonable so long as they enable the utility to operate successfully, to maintain its financial integrity, to attract capital and to compensate its investors for the risks assumed.").

[5] KRS 278.190(3); *see also* KRS 278.2209 ("In any formal commission proceeding in which cost allocation is at issue, a utility shall provide sufficient information to document that its cost allocation procedures and affiliate transaction pricing are consistent with the provisions of this chapter.").

[6] Application at 4.

Attorney General did not object to the proposed test period or suggest an alternative test period; it did, however, criticize Atmos Kentucky's development of certain items contained in the proposed test period, as discussed herein. The Commission finds Atmos Kentucky's forecasted test period to be reasonable and consistent with the provisions of KRS 278.192 and 807 KAR5:001, Section 16(6), (7), and (8). Therefore, the Commission accepts the forecasted test period proposed by Atmos Kentucky for use in this proceeding.

VALUATION

Rate Base

Atmos Kentucky proposed a net investment rate base for its forecasted test period of $596.130 million, based on the 13-month average for that period.[7] In response to errors identified in discovery, Atmos Kentucky revised this amount to $583.089 million.[8] In its rebuttal testimony, Atmos Kentucky further revised its proposed rate base to $581.184 million.[9]

The Attorney General proposed to reduce Atmos Kentucky's rate base to $563.372 million.[10] The Attorney General proposed to (1) remove asset net operating loss (NOL) accumulated deferred income taxes (ADIT) due to Winter Storm Uri;[11] (2) reduce asset

[7] Application, Schedule A.

[8] Atmos Kentucky's Supplemental Response to Commission Staff's First Request for Information (filed Aug. 23, 2021), (Staff's First Request), Item 55.

[9] Corrected Rebuttal Testimony of Joe T. Christian (Christian Rebuttal Testimony), Exhibit JTC-R-1 Revised.

[10] Attorney General's Post-Hearing Brief (filed Jan. 14, 2022) (Attorney General's Brief), Atmos_Rev_Req_-_AG_Recommendation-Addtl_Brief_Quantifications.xlsx, Tab Rate Base.

[11] Attorney General's Brief at 5.

NOL ADIT to reflect taxable income from April 2021 through December 2021;[12] (3) include Shared Service Unit (SSU) Division 002 T-Lock Adjustment - Unrealized Gains liability ADIT;[13] (4) remove other SSU division 002 ADIT;[14] (4) remove Accounts Payable – Construction;[15] (5) remove regulatory assets for rate case expenses;[16] (6) adjust depreciation expense lag days in cash working capital (CWC) and remove noncash items;[17] (7) adjust CWC to reflect changes in expenses;[18] and (8) reflect effects from amortization of unprotected excess deferred income taxes (EDIT) over three years.[19]

As discussed later in this Order, the Commission has determined that Atmos Kentucky's net investment rate base for ratemaking purposes is $568.506 million, as shown below.

	Amount
Rate Base per Application	$ 596,130,007
August 23, 2021 Supplemental Filing - Revisions	$ (13,040,183)
Revised Rate Base	$ 583,089,824
Adjustments:	
Include SSU Division 002 T-Lock Adjustment-Unrealized Gains Liability ADIT	$ (3,229,413)
Remove Other SSU Division 002 ADIT	$ (1,218,640)
Remove Accounts Payable - Construction	$ (5,174,457)
Remove Regulatory Asset for Rate Case Expenses	$ (365,168)
Remove Noncash Items from CWC	$ (6,314,237)
Reflect Effects from Amortization of Unprotected EDIT Over Three Years	$ 1,717,920
Net Change in Rate Base	$ (14,583,995)
Adjusted Rate Base	$ 568,505,829

[12] Attorney General's Brief at 6.

[13] Attorney General's Brief at 12.

[14] Attorney General's Brief at 12.

[15] Attorney General's Brief at 13.

[16] Attorney General's Brief at 14.

[17] Attorney General's Brief at 19.

[18] Attorney General's Brief at 19.

[19] Attorney General's Brief at 21.

Capitalization

Atmos Energy conducts utility operations in eight states through unincorporated operating divisions, which are not separate legal entities. All debt or equity funding of each division is issued by Atmos Energy.[20] Atmos Kentucky stated that this consolidated capital structure is appropriate for ratemaking in Kentucky because Atmos Energy provides the debt and equity capital that supports the assets serving Kentucky customers.[21] Atmos Kentucky proposed to update its total capitalization for the forecasted test period to $13,499,336,801 to reflect finance activity and the impact of interest rate swaps.[22] The Attorney General recommended adjustments to the proposed capitalization, as discussed below. The Commission accepts Atmos Kentucky's proposed capitalization amount for ratemaking but, as discussed below, modifies the inherent capital structure.

REVENUE REQUIREMENT ADJUSTMENTS

Atmos Kentucky developed an operating statement for its forecasted test period based on its budgets for the 2022 and 2023 fiscal years, excluding the Pipeline Replacement Program (PRP) expenditure after September 30, 2022.[23] As required by 807 KAR 5:001, Section 16(6)(a), the financial data for the forecasted test period was presented by Atmos Kentucky in the form of pro forma adjustments to its base period, with the 12 months ending September 30, 2021.[24] Based on the assumptions built into

[20] Direct Testimony of Joe T. Christian (Christian Testimony) at 52.

[21] Christian Testimony at 52-53.

[22] Christian Rebuttal Testimony, Exhibit JTC-R-1.

[23] Christian Testimony at 13. Atmos Kentucky's fiscal year ends September 30.

[24] Application at 4.

its budgets, Atmos Kentucky calculated its test year revenues and operating and maintenance (O&M) expenses to be $173.467 million and $144.049 million, respectively.[25] Based on these adjusted revenues and O&M expenses, Atmos Kentucky's test period operating income was $29.418 million, which based on its proposed rate base, results in a 4.93 percent overall rate of return.[26] Based on a proposed ROE of 10.35 percent, Atmos Kentucky determined that it required a revenue increase of $6.527 million, which includes the amortization of regulatory liabilities of $9.862 million and would produce an overall return on rate base of 7.66 percent.[27]

The Attorney General, based on a number of proposed adjustments to Atmos Kentucky's test period results and a 9.10 percent ROE, recommended an increase in revenues of $0, with a maximum increase of $1.540 million after regulatory liabilities are exhausted.[28]

The Commission will accept components of Atmos Kentucky'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 Kentucky's revenue requirement follows.

[25] Application, Schedule C-1.

[26] Application, Schedule A and Schedule C-1.

[27] Application, Schedule A.

[28] Attorney General's Brief at 38.

Rate Base Adjustments

Remove Asset NOL ADIT due to Winter Storm Uri

Atmos Energy tracks its NOL ADIT, which is a deferred tax asset that increases rate base, on a consolidated company basis for Atmos Energy's utility divisions. Atmos Energy records that deferred tax asset in Division 2, Account 190 and then allocates a share of that NOL ADIT to its Kentucky operations using a cost allocation percentage.[29] A large portion of the NOL ADIT in the base period and forecasted period as originally filed is directly tied to costs from other states arising from Winter Storm Uri. The Attorney General's witness, Lane Kollen, proposed to remove that NOL ADIT before the total was allocated to Kentucky using the allocation percentage,[30] and Atmos Kentucky agreed to the adjustment.[31] The Commission finds that this adjustment is reasonable and is accepted.

Reduction of NOL ADIT from April 2021 through December 2021:

Atmos Energy maintains separate accounting records for each temporary difference and the related deferred tax asset and liability amounts except for deferred tax assets arising from net operating loss carryforwards, or NOL ADIT.[32] Atmos Energy aggregates the NOLs for all divisions and records NOL ADIT at the corporate level in the

[29] Direct Testimony of Lane Kollen (Kollen Testimony) at 7-8.

[30] Kollen Testimony at 9.

[31] Christian Rebuttal Testimony at 4.

[32] Atmos Kentucky's Response to the Attorney General's First Request for Information (filed Aug. 23, 2022) (Attorney General's First Request), Item 20(a).

SSU Division 002.[33] At the corporate level, Atmos Energy generally only divides NOL ADIT between those that arose from regulated and unregulated operations.[34]

In its revenue model filed with the application, Atmos Kentucky reflected approximately $608.54 million in regulated, or utility, NOL ADIT as of September 30, 2020; $598.05 million in utility NOL ADIT as of December 31, 2021, and $977.07 million in utility NOL ADIT as of March 31, 2021.[35] Upon questioning from the Attorney General, Atmos Kentucky acknowledged that the significant increase in its NOL ADIT balance at the end of March 2021 arose from expenses incurred by rate divisions in Texas, Oklahoma, and Kansas arising from Winter Storm Uri. As noted above, Atmos Kentucky acknowledged NOL ADIT arising from Winter Strom Uri should not be included in rate base for Kentucky customers and, therefore, updated its revenue model to remove those items,[36] which resulted in the utility NOL ADIT being reduced to $537.24 million as of March 31, 2021.[37]

Atmos Kentucky did not reflect any change in its utility NOL ADIT after March 31, 2021. Rather, Atmos Kentucky simply carried the $537.24 million balance forward to the forecasted test year and then allocated it to Kentucky operations using the same sharing

[33] Kollen Testimony at 7.

[34] *See* Atmos Kentucky's Response to Staff's First Request, Item 55, ADIT_for_KY_04-30-21.xlsx, Tab ADIT 002, Rows 58-60.

[35] *See* Atmos Kentucky's Response to Staff's First Request, Item 55, ADIT_for_KY_04-30-21.xlsx, Tab ADIT 002, Row 59.

[36] Atmos Kentucky's Response to the Attorney General's First Request, Item 20(e)-(g).

[37] *See* Atmos Kentucky's Supplemental Response to Staff's First Request (filed Aug. 17, 2021), Item 55, ADIT_for_KY_04-30-21 updated NOL for URI 8-17-21.xlsx, Tab ADIT 002, Row 59.

percentage it uses to allocate SSU's plant and other rate base items,[38] which resulted in $26.72 million of Atmos Energy's utility NOL ADIT being included in rate base for Kentucky operations.[39] Atmos Kentucky then projected the change in the NOL ADIT allocated to Kentucky during the forecasted test year by comparing the projected tax expense during the test year to the ADIT generated to determine whether the NOL ADIT allocated to Kentucky could be utilized to offset tax expense during the test year, which resulted in a $2.986 million reduction in the NOL ADIT allocated to Kentucky.[40]

Kollen noted that the manner in which Atmos calculates the utilization of its NOL ADIT failed to account for potential changes from April 2021 to December 2021.[41] Kollen stated that Atmos Energy had taxable income on its consolidated return in 2020 and, excluding the expenses associated with Winter Storm Uri, in the first part of 2021. Kollen argued that it was unreasonable for Atmos Kentucky to reflect no change in the NOL ADIT in the period from April 2021 to December 2021.[42] Kollen proposed using Atmos Kentucky's utilization of NOL ADIT from October 1, 2020 through March 31, 2021, which was approximately $71.120 million, to project the utilization of the NOL ADIT during the period from April 1, 2021 through December 31, 2021, which would reduce the NOL ADIT

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[38] *See* Atmos Kentucky's Response to Staff's First Request, Item 55, 2021 KY Rev Req Model.xlsx, Tab B.5 F (showing the allocation of Account 190 for Division 002, which included the regulated NOL Assets).

[39] $537,424,569 x 4.97% = $26,717,590.

[40] *See* Atmos Kentucky's Supplemental Response to Staff's First Request (filed Aug. 17, 2021), Item 55, 2021 KY Rev Req Model – Revised 8-17-21.xlsx, Tab ADIT 002, Row 59; *see also* Kollen Testimony at 10 (discussing how Atmos Kentucky calculated the utilization of NOL Assets).

[41] Kollen Testimony at 10.

[42] Kollen Testimony at 11.

by about $106.679 million.[43] Kollen indicated that this would result in a $0.514 million reduction in the revenue requirement.[44]

Atmos Kentucky argued that Kollen's assumption that it would have $106.679 million in tax expense from April 1, 2021, to December 31, 2021, is not reasonable and, therefore, his proposed adjustment is not reasonable. Atmos Kentucky asserted that during the period from April 1, 2021, to September 30, 2021, which represents the end of Atmos Kentucky's most recent fiscal year, the NOL ADIT increased by $34.9 million. Atmos Kentucky argued that with that increase in the NOL ADIT that the net change in the NOL ADIT in the fiscal year ending September 30, 2021, was a decrease of $36.3 million as opposed to the decrease of about $71.120 million reflected in the revenue model. Thus, Atmos Kentucky urged the Commission to reject Kollen's proposed adjustment.[45]

The Commission agrees that the evidence does not currently support reducing the NOL ADIT during the period from April 1, 2021, to December 31, 2021, as proposed by Kollen. While Atmos Kentucky recorded a reduction in its NOL ADIT in fiscal year 2020, the actual reduction in that year was less than the reduction Atmos Kentucky projected in fiscal year 2021, even assuming no change after March 31, 2021. The actual reduction was also significantly lower than Kollen's projection for fiscal year 2021.[46] Atmos Kentucky's testimony regarding the changes in the NOL ADIT from April 1, 2021 to

[43] Kollen Testimony at 12.

[44] Kollen Testimony at 13.

[45] Rebuttal Testimony of Joey J. Multer (Multer Testimony) at 7-10.

[46] *See* Atmos Kentucky's Response to the Attorney General's First Request, Item 15, AG_1-15_Att1 – NOL Rollforward (CONFIDENTIAL).xlsx.

September 30, 2021 is also credible given that the retail sales of gas distribution companies tend to peak in the winter.[47] Finally, although Atmos Kentucky did not project the utilization of NOL ADIT from October 1, 2021 to December 31, 2021 in either its direct or rebuttal testimony, utilization during that period would not likely exceed the increase in NOL ADIT reflected by Atmos Kentucky from April 1, 2021 to September 30, 2021.[48] Thus, the Commission does not accept Kollen's proposed adjustment to reflect the utilization of additional NOL ADIT during the period from April 1, 2021 to December 31, 2021.

The Commission does question Atmos Kentucky's methodology for tracking and allocating net operating losses. The accumulation and utilization of NOLs should be done on a Kentucky specific basis to the extent possible.[49] Atmos Kentucky has acknowledged that "specific one-off events" resulting in deferred tax liabilities and corresponding NOL ADIT should be assigned to the applicable utility division to the extent they can be identified and the assignment would not violate the consistency rule.[50] Atmos Kentucky even separately tracks and excludes the utilization of NOL ADIT by its non-regulated

[47] The historical portion of the forecasted period reflects this variability in utilization of utility NOL Assets with $10,498,762 being utilized from October 1, 2020, to December 31, 2020, and $60,620,743 being utilized from January 1, 2021, through March 31, 2021. *See* Atmos Kentucky's Supplemental Response to Staff's First Request (filed Aug. 17, 2021), Item 55, ADIT_for_KY_04-30-21 updated NOL for URI 8-17-21.xlsx, Tab ADIT 002, Row 59.

[48] *See* Atmos Kentucky's Supplemental Response to Staff's First Request, Item 55, ADIT_for_KY_04-30-21 updated NOL for URI 8-17-21.xlsx, Tab ADIT 002, Row 59 (reflecting the change in the previous year during the same period).

[49] *See* Case No. 2021-00183, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity; and Other Relief* (Ky. PSC Dec. 28, 2021), final Order at 14-20.

[50] Atmos Kentucky's Response to the Attorney General's First Request, Item 17.

divisions, which results in more NOL ADIT being allocated to utility divisions.[51] However, Atmos Energy apparently makes little to no effort to identify and allocate NOLs to the specific utility division that generated them.[52]

Atmos Energy's failure to track and allocate NOLs to specific utility divisions could result in significant NOL ADIT generated by other jurisdictions being included in rate base for Kentucky customers. Further, it could prevent NOL ADIT properly allocated to Kentucky operations from being utilized by positive taxable income in Kentucky. Those effects would be similar to including ADIT or plant in service from other jurisdictions in rate base for Kentucky, which would be improper.[53]

The Commission recognizes that Atmos Energy has been tracking its NOL ADIT on a consolidated basis and then allocating the NOL ADIT to various divisions for some time and that the method could result in a reasonable allocation if the allocation percentage is appropriate. However, Atmos Kentucky's initial inclusion of $439.64 million arising from losses in other jurisdictions in the NOL ADIT to be allocated raises questions about Atmos Kentucky's method for allocating NOL ADIT to Kentucky customers and the

[51] *See* Atmos Kentucky's Supplemental Response to Staff's First Request, Item 55, ADIT_for_KY_04-30-21 updated NOL for URI 8-17-21.xlsx, Tab ADIT 002, Row 58 (showing NOL Assets for nonregulated activity of ($170,609,458) as of March 31, 2021, which indicates that the nonregulated divisions utilized significant amounts of net operating losses generated by utility divisions such that the utility NOL Assets actually would not exist in their entirety if NOL Assets actually were determined on a consolidated basis).

[52] Atmos Kentucky does not reflect any federal NOL Assets in the other Kentucky related divisions about which information was provided herein and the only specific item identified for Division 002 is the NOL Asset associated with Winter Strom Uri. *See* Atmos Kentucky's Supplemental Response to Staff's First Request (filed Aug. 17, 2021), Item 55, 2021 KY Rev Req Model – Revised 8-17-21.xlsx. Moreover, Atmos Kentucky did not identify and carve out the NOL Asset associated with Winter Strom URI until the Attorney General asked about it in requests for information, despite the fact that it increased the total NOL Assets by about 82 percent.

[53] *See* Case No. 2021-00183, *Columbia Gas of Kentucky, Inc.* (Ky. PSC Dec. 28, 2021), final Order at 14-20.

reasonableness of using sharing percentages. Thus, in light of the potentially significant losses being incurred by other divisions that might be assigned to Kentucky customers, the Commission finds that Atmos Kentucky's failure to identify and allocate NOLs to specific utility divisions is unreasonable going forward.

Atmos Kentucky must now track the generation and utilization of NOL ADIT for Kentucky in each fiscal year on a standalone basis based on the expenses incurred and revenue generated from regulated operations in Kentucky, including any revenue from Atmos Kentucky's performance-based rates, without regard to losses incurred by other jurisdictions. In future applications to increase base rates, Atmos Kentucky must file a report showing the generation and utilization of NOL ADIT for Kentucky since this Order based on the expenses incurred and revenue generated from Kentucky operations. If Atmos Kentucky proposes to use a different method to reflect the generation and utilization of NOL ADIT for Kentucky in its revenue model in such cases, Atmos Kentucky must explain in detail why using that method would be reasonable.

<u>SSU Division 002 T-Lock Unrealized Gains Liability ADIT</u>

Kollen proposed adjustments to SSU Division 002 ADIT to be consistent with prior rate cases and match asset and liability balance allocations.[54] Atmos Kentucky excluded liability ADIT related to unrealized gains from treasury lock financial hedges (T-Lock) while including the asset ADIT related to realized gains.[55] Kollen argued that this exclusion inappropriately matched allocated ADIT items and differs from the allocations from prior rate cases. Kollen further argued that these amounts together are proper to

[54] Kollen Testimony at 14.

[55] Kollen Testimony at 13-14.

include in Atmos Kentucky's rate base because the amortization of these unrealized and realized gains are used to calculate the average cost of debt.[56] The proposed revenue requirement reduction is $0.313 million.[57]

Atmos Kentucky argued that neither the unrealized gain nor the associated liability ADIT should be included in rate base but agreed that the unrealized gains are included in the common equity used to calculate the weighted average cost of capital (WACC); Atmos Kentucky agreed to Kollen's adjustment as long as there is no reduction to the common equity component.[58]

While the Commission will adjust Atmos Kentucky's capital structure as described below, the adjustment is unrelated to the inclusion of unrealized gains. Atmos Kentucky also did not rebut Kollen's arguments that Atmos Kentucky's methodology is inconsistent with past rate cases and results oriented. Therefore, the Commission finds that this adjustment is reasonable and is accepted.

<u>Other NOL ADIT Adjustments – SSU Division 002</u>

Kollen recommended removing other SSU Division 002 ADIT that was allocated to the Kentucky division because the underlying temporary differences are not allocated to Kentucky. These ADIT amounts include: (1) asset Self-Insurance Adjustment; (2) asset Rabbi Trust, VEBA Trust Contribution Adjustment, and FAS106 Adjustment; (3) Pension Expense; (4) asset Federal and State Tax Interest; (5) asset FD-NOL Credit

[56] Kollen Testimony at 15.

[57] Kollen Testimony at 16.

[58] Rebuttal Testimony of Joel J. Multer (Multer Rebuttal Testimony) at 5-6.

Carryforward – Other; and (6) asset state Enterprise Zone ITC and related Valuation Allowance.[59] The revenue requirement reduction is $0.118 million.

Atmos Kentucky agreed with the various ADIT adjustments related to allocations from SSU Division 002.[60]

The Commission finds that this adjustment is reasonable and is accepted.

Accounts Payable – Construction

Kollen argued that Atmos Kentucky included, in the test period rate base, working capital allowances for gas stored underground and materials/supplies inventories, but failed to subtract any accounts payable liability balance sheet amounts.[61] Kollen stated that the accounts payable amounts represent temporary vendor financing at 0 percent cost to Atmos Kentucky for both operating expenses and capital expenditures.[62] Kollen proposed to subtract it from rate base through the cash working capital (CWC) calculation using the lead/lag approach. The effect is a reduction in the revenue requirement deficiency and requested base increase of $0.501 million.

Atmos Kentucky disagreed with Kollen's recommendation, stating that Atmos Kentucky has followed the same methodologies as was filed and approved in Case Nos. 2017-00349[63] and 2018-00281. Atmos Kentucky argued that Kollen is introducing a new methodology that has not been included in Atmos Kentucky’s previous lead/lag studies

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[59] Kollen Testimony at 16-17.

[60] Multer Rebuttal Testimony at 4.

[61] Kollen Testimony at 19.

[62] Kollen Testimony at 20.

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

and cherry picks one methodological item in the CWC calculation.[64] Atmos Kentucky also stated that although a similar adjustment was accepted by the Commission in Case No. 2020-00174[65] and in a recent settlement, Kollen provided no support for this adjustment.[66]

In a number of recent base rate cases where the revenue requirement is determined using rate base, the Commission has accepted adjustments to remove accounts payable from working capital amounts because the utility does not finance these amounts. The same reasoning exists here. Therefore, the Commission finds that this adjustment is reasonable and is accepted.

<u>Remove Regulatory Asset for Rate Case Expenses</u>

In the Application, Atmos Kentucky proposed an adjustment to include, in rate base, the 13-month average of the projected unamortized balance of two regulatory assets: (a) deferred rate case expenses in Case No. 2018-0281 of $0.063 million; and (b) projected rate case expenses in the instant case of $0.302 million.[67]

Kollen argued that the deferred rate case expenses were and will be incurred to benefit Atmos Kentucky and its shareholders, not customers, and should be removed.[68] Furthermore, Kollen stated that if Atmos Kentucky's base rates are not reset within the next three years, then it will continue to recover the amortization expense. Kollen

[64] Christian Rebuttal Testimony at 21-22.

[65] Case No. 2020-00174, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief* (Ky. PSC June 23, 2020).

[66] Christian Rebuttal Testimony at 22.

[67] Application, Schedule F-6.

[68] Kollen Testimony at 21.

recommended allocating the return on the regulatory asset for the deferred rate case expenses to Atmos Kentucky and its shareholders and allocating the amortization expense to the Atmos Kentucky's customers. The effect is a reduction of $0.023 million in the revenue requirement.

Atmos Kentucky argued that customers benefit from just and reasonable rates, and that it would not recover certain assets, such as capital investments, until after a full rate case, so the inclusion of the regulatory asset in rate base would not provide a material benefit to shareholders to delay rate cases in order to collect amortization expense.[69]

The Commission agrees that rate case expense regulatory assets should not be included in rate base, as that would allow a return on the unamortized balance of the expense. The Commission has historically excluded this item from rate base to share the cost of rate proceedings between the stockholders and ratepayers, notwithstanding omissions of this adjustment in recent Atmos Kentucky rate cases. While Kollen stated that the proposed adjustment removed these regulatory assets from rate base, it removed the $0.241 million increase in the 13-month average rate base from the base period, which included the regulatory asset for Case No. 2018-00281. The Commission will remove the 13-month average of both regulatory assets from rate base of $0.365 million, which results in a revenue requirement reduction of $0.035 million.

Cash Working Capital

Atmos Kentucky included CWC in its rate base of negative $3.063 million based on a lead/lag study that included noncash items.[70] Kollen argued that depreciation

[69] Christian Rebuttal Testimony at 25.

[70] Christian Testimony, 2 Exhibit JTC-4 at 2.

expense should not be included in a lead/lag study with 0 lag days.[71] He recommended that either the expense be removed, or the lag days increased to 27.92 days.[72] Kollen proposed to increase the lag days, which results in a revenue requirement reduction of $0.153 million.[73] Kollen also recommended adjusting the CWC to account for the corrections that Atmos Kentucky filed and for the other adjustments recommended by Kollen and Baudino; the effect is a revenue requirement reduction of $0.093 million.[74] The Attorney General included an additional adjustment to remove noncash items, excluding depreciation; the additional adjustment is a revenue requirement reduction of $0.362 million.[75] In response to data requests, Kollen also provided the adjustment necessary to remove noncash items from the lead/lag study, a rate base reduction of $6.314 million, and a revenue requirement reduction of $0.612 million.[76]

Atmos Kentucky argued that Kollen's adjustment incorrectly describes when depreciation expense is recovered from customers and that it is actually recovered after service is provided.[77] Atmos Kentucky agreed that adjustments to expenses should be flowed through the lead/lag study and provided this correction.[78]

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[71] Kollen Testimony at 24.

[72] Kollen Testimony at 26.

[73] Kollen Testimony at 26.

[74] Kollen Testimony at 27.

[75] Attorney General's Brief at 19.

[76] Attorney General's response to Commission Staff's First Request for Information, Item 2.

[77] Christian Rebuttal Testimony at 24.

[78] Christian Rebuttal Testimony at 24.

Noncash expenses are not appropriate to include in the CWC determination. The Commission finds that noncash items should be removed from the lead/lag study and accepts Kollen's calculated adjustment for a revenue requirement reduction of $0.612 million.

Pipeline Replacement Program

Atmos Kentucky proposed to include capital projects for its PRP in base rates and reset its rider to $0 through September 2022, and, as discussed below, to expand its PRP to include the accelerated replacement of Aldyl-A pipe. Atmos's PRP was last rolled into base rates in Case No. 2018-00281. Kollen recommended that the Commission reject the inclusion of Aldyl-A in the PRP.[79]

As discussed below, the Commission finds that Atmos Kentucky provided sufficient information to justify the Aldyl-A replacement projects included in its forecasted test year and the proposal to include these projects in base rates and roll the PRP into base rates through September 2022 is reasonable and is approved. However, in Atmos Kentucky's next base rate case, the Commission will consider the justness of resetting PRP rates. Rolling PRP amounts in rate base and resetting the PRP rider to $0 reduces the transparency of the amounts expended as part of the rider.

Amortize Unprotected Excess Deferred Income Taxes (EDIT)

Atmos Kentucky proposed a five-year amortization of its unprotected EDIT regulatory liability. Kollen recommended a three-year amortization period to return these amounts between rate cases, consistent with the amortization of rate case expenses.[80]

[79] Kollen Testimony at 46-47.

[80] Kollen Testimony at 30.

The effect on rate base is an increase of $1.718 million, because the unprotected EDIT regulatory liability is a reduction to rate base and increasing the amortization will decrease the 13-month average balance deducted from rate base.

Atmos Kentucky did not oppose Kollen's adjustment but stated that a longer amortization period benefits customers for a longer period and recommended using the proposed five-year amortization period.[81]

The Commission finds that Kollen's adjustment to amortize unprotected EDIT over three years is reasonable and is accepted. The rate base increase results in a revenue requirement increase of $0.166 million and the increased amortization, which is discussed below, results in a revenue requirement decrease of $3.460 million. In conjunction with the amortization of regulatory liabilities discussed below, decreasing the amortization period for unprotected EDIT will ameliorate the current rate increase to the benefit of customers.

Operating Income Adjustments

Reduce Outside Services Expense Allocated from Kentucky/Mid-States Division

For both the base period and forecasted test period, Atmos Kentucky included $1.489 million in outside services expense allocated from the Kentucky/Mid-States division,[82] which Kollen argued is excessive compared to historical expenses and driven by increases that did not actually occur in the base period updates.[83] Kollen

[81] Christian Rebuttal at 32.

[82] Christian Testimony, Exhibit JTC-2.

[83] Kollen Testimony at 28-29. *See* also Atmos Kentucky's response to the Attorney General's Second Request for Information, Item 11.

recommended annualizing the actual expenses incurred in the base period for a revenue requirement reduction of $0.405 million.[84]

Atmos Kentucky argued that the now available actual results of the base period do not support Kollen's adjustment.[85] Atmos Kentucky argued that selecting a single expense category was not appropriate because while outside services expense was lower than projected, the total operations and maintenance (O&M) expenses are 2.25 percent higher, including bad debt expense and 0.42 percent lower excluding bad debt.[86]

The Commission finds that Kollen's adjustment is reasonable and is accepted. While the total O&M expenses are relatively close to projections, Atmos Kentucky did not forecast its total O&M expenses by simply carrying over the base period amount. The outside services expenses included in the test-year are not reasonable given the historic amounts and Atmos Kentucky's stated drivers of the increase.

Amortization of EDIT

As discussed above, Kollen recommended a 3-year amortization period for Atmos Kentucky's unprotected EDIT. The effect of increasing the amortization of the regulatory liability is a revenue requirement reduction of $3.460 million.

The Commission finds that this adjustment is reasonable and is accepted.

Amortize Remaining Rate Case Expense from Case No. 2018-00281

Atmos Kentucky proposed a three-year amortization of rate case expenses consistent with the Commission's findings and final Order in Case No. 2018-00281,

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[84] Kollen Testimony at 29.

[85] Christian Rebuttal at 27.

[86] Christian Rebuttal at 27.

resulting in amortization expense of $0.149 million.[87] Kollen proposed and Atmos Kentucky agreed to reset the amortization for the regulatory asset related to Case No. 2018-00281 so that the amortization runs concurrently with the present case, resulting in amortization expense of $0.138 million. This results in a revenue requirement reduction of $0.011 million.

The Commission finds that this adjustment is reasonable and is accepted.

Remove Social Organization/Service Club Dues

In its application, Atmos Kentucky included $0.052 million for American Gas Association (AGA) dues in the test year, after an adjustment to remove $0.003 million for lobbying activities. Kollen argued that AGA dues are like Edison Electric Institute (EEI) dues, which have been disallowed in previous cases.[88] Further, Kollen suggested that Atmos Kentucky has not provided proof that the dues its ratepayers provide toward Atmos Kentucky's membership in AGA are not used for legislative advocacy, regulatory advocacy, or public relations.[89] Kollen recommended removing all AGA dues in the test year.

Atmos Kentucky explained that 6.2 percent of AGA and 15 percent of Kentucky Chamber of Commerce dues related to legislative advocacy were removed from the forecasted test year revenue requirement, based upon amounts identified on invoices as allocable to lobbying activity.[90] Atmos Kentucky argued that its participation in AGA

[87] Application, Schedule F-6.

[88] Kollen Testimony at 35.

[89] Kollen Testimony at 35.

[90] Atmos Kentucky's response to the Attorney General's First Request for Information (Attorney General's First Request), Item 2.

benefits customers in that it enables them to stay aware of changes and implement best practices to provide safe, reliable, and efficient delivery of natural gas to its customers. Atmos Kentucky also provided an explanation of select organizations for which it included dues in base rates and stated that the remaining organizations are local, and state civic organizations engaged in the overall economic development in and around Atmos Kentucky's service area.[91]

As noted in Case Nos. 2020-00350 and 2021-00183, Atmos Kentucky has the burden of establishing that costs it seeks to recover in rates for dues paid to associations like AGA do not include prohibited costs for lobbying and political activity, including costs for legislative lobbying, regulatory advocacy, and public relations.[92] When asked by the Attorney General whether each association for which dues were included in rates engaged in such activity, Atmos Kentucky indicated that it "identified the AGA and Kentucky Chamber of Commerce as organizations that engage, directly or indirectly, in one or more of the listed activities," without indicating whether or not others did.[93] Atmos Kentucky then estimated percentages of the dues related only to lobbying for the AGA and Kentucky Chamber of Commerce without identifying amounts paid for other

[91] Atmos Kentucky's response to the Attorney General's First Request for Information, Item 2.

[92] Case No. 2020-00350, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit* (Ky. PSC June 30, 2021), final Order 27-30. Case No. 2021-00185, *Electronic Application of Delta Natural Gas Company, Inc. for an Adjustment of Its Rates and a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 3, 2022), final Order 9-10.

[93] Atmos Kentucky's Response to the Attorney General's First Request, Item 2(d); *see also* Atmos Kentucky's Response to the Attorney General's First Request, Item 2(c), Attachment 2. The provided description for Girls Inc. included "we also advocate for legislation and policies."

prohibited costs.[94] Thus, the Commission finds that Atmos Kentucky has not met its burden of proof that the association and social organization/social club dues are properly recoverable from ratepayers and do not include expenses related to legislative advocacy, regulatory advocacy, or public relations.[95] The Commission will remove all such dues, excluding the Southern Gas Association, because it has been specifically approved in recent gas rate cases.[96] The Commission will also exclude expenses included in error.[97] The resulting revenue requirement reduction is $0.164 million.

<u>Uncollectible Accounts</u>

Atmos Kentucky proposed to establish a regulatory asset that would defer write-offs until the next base rate case to avoid any over or under recovery resulting from the COVID-19 pandemic and requested a baseline/benchmark of $0.363 million. Kollen recommended that the Commission reject the proposal stating that the bad debt reserve already tracks the difference in allowed expense compared to write-offs, net of recoveries and there is no need to overlay another deferral mechanism. Atmos Kentucky argued that it is not able to forecast a reasonable bad debt expense and a tracker would balance the needs of the customer and Atmos Kentucky and maintained that, based upon Kollen's

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[94] Atmos Kentucky's Response to the Attorney General's First Request, Item 2(e).

[95] Case No. 2020-00350, *Louisville Gas and Electric Company* (Ky. PSC June 30, 2021), final Order 27-30 (excluding all costs for dues paid to an association where the utility only identified and excluded a specific category of costs related to legislative lobbying from dues it sought to recover in rates).

[96] Case No. 2021-00183, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity; and Other Relief* (Ky. PSC Dec. 28, 2021), Order at 10. Case No. 2021-00185, *Delta* (Ky. PSC Jan. 3, 2022), Order at 8-9.

[97] Atmos Kentucky's response to the Attorney General's First Request, Item 2(c). Atmos Kentucky identified Sam's Club and One Health dues were recorded as social organization dues. These amounts, $310 and $75, respectively, are excluded for the adjustment.

response to Atmos Kentucky's discovery, there is a misunderstanding of what is included in the revenue requirement for bad debt expense and what is recorded for Generally Accepted Accounting Principles (GAAP) purposes.[98] Atmos Kentucky also argued that the Commission's suspension of collections affected its ability to accurately forecast the uncollectible accounts.[99] The Commission's suspension of late payment fees and disconnection for nonpayment was in effect from March 30, 2020 through December 31, 2020, but Atmos Kentucky did not reinstate disconnections or late fees until June 2, 2021.[100]

While the Commission does not agree with Kollen's description of a bad debt reserve as a deferral mechanism in a similar manner to a regulatory asset or liability, the Commission finds that Atmos Kentucky has not established a need for a deferral mechanism due to its inability to forecast uncollectible accounts. Atmos Kentucky forecasted the uncollectible accounts based on its target percentage of 0.50 percent.[101] Requiring ratepayers to shoulder 100 percent of the risk that Atmos Kentucky will experience higher write-offs, while also raising rates, does not "balance the needs of the customer and the Company."[102]

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[98] Christian Rebuttal at 31.

[99] Christian Rebuttal at 31.

[100] Atmos Kentucky's response to Commission Staff's Sixth Request for Information (filed Jan. 6, 2022) (Staff's Sixth Request), Item 6.

[101] Christian Testimony at 36.

[102] Atmos Kentucky's response to Staff's Sixth Request, Item 6(b).

Amortization of Regulatory Liabilities

Atmos Kentucky proposed to temporarily reduce its requested revenue requirement increase by the amortization of regulatory liabilities established in Atmos's last rate case.[103] Atmos Kentucky proposed to return the entirety of the $9.805 million in regulatory liabilities in the first 12 months of the rate increase, for a revenue requirement reduction of $9.862 million.[104] Kollen recommended amortizing the regulatory liabilities to reduce the current increase to $0 until they are exhausted,[105] which at a rate of $1.540 million annually would take approximately 6.4 years.[106]

Out of concern and consideration for increasing energy costs that may exist beyond the short term, the Commission chooses not to amortize the regulatory liabilities to bring the current increase to $0, so that the remaining regulatory asset balances will be available to offset likely or possible increases in energy costs in the foreseeable future, particularly given Atmos Kentucky's history of frequent and periodic rate cases. The Commission finds that a six-year amortization period is reasonable and is approved, which reduces the revenue requirement by $1.644 million. The temporary amortization of regulatory liabilities of $1.644 million shall continue until the regulatory liabilities are exhausted or the effective date of Atmos Kentucky's next base rate case, whichever occurs first.

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[103] Christian Testimony at 45.

[104] Christian Testimony at 46.

[105] Kollen Testimony at 4.

[106] Attorney General's Brief at 38. $9.862 / $1.540 = 6.4.

Nonrecurring Charges

As discussed below, the Commission will adjust Atmos Kentucky's nonrecurring charges, which will reduce miscellaneous service charges by $0.126 million and result in a revenue requirement increase of the same amount. The changes to Atmos Kentucky's late payment fees result in an overall reduction in late fee revenue and a revenue requirement increase of $0.997 million.

PRO FORMA ADJUSTMENTS SUMMARY

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

	Atmos Forecasted Test Period	Commission Accepted Adjustments	Commission Adjusted Test Period
Operating Revenues	$ 173,466,923	$ -	$ 173,466,923
Operating Expenses	144,050,085	(579,584)	143,470,501
Net Operating Income	$ 29,416,838	$ 579,584	$ 29,996,422

RATE OF RETURN

Capital Structure and Cost of Debt

The Kentucky/Mid-States Division of Atmos Energy is not a separate legal entity, and therefore, Atmos Energy issues all debt or equity funding. For ratemaking purposes, the proposed capital structure is equivalent to the Atmos Energy capital structure, excluding the $2.2 billion of financing issued March 2021 due to Winter Storm Uri.[107] The proposed capital structure as of the twelve months ending December 31, 2022, or the end of the forecasted test period, consisted of 42.77 percent long-term debt at a cost of

[107] Christian Testimony, at 54.

4.00 percent; 0.18 percent short-term debt at a cost of 25.17 percent; and 57.05 percent common equity with a proposed ROE of 10.35 percent for a WACC of 7.66 percent.[108] A summary of Atmos Energy's modified cost of capital for Atmos Kentucky follows:

		Percent of Total	Cost Rate	13-month Avg. Cost
Short-Term Debt	$ 21,566,707	0.18%	25.17%	0.05%
Long-Term Debt	$ 5,119,937,524	42.77%	4.00%	1.1%
Common Equity	$ 6,838,047,900	57.05%	10.35%	5.90%
Total Capital	$11,969,542,131			7.66%

In addition to reducing the ROE to 9.10 percent, the Attorney General's witness, Richard A. Baudino, recommended to further modify the capital structure. Regarding the equity ratio of 57.05 percent, Baudino argued that this ratio is unreasonable, unnecessary for the provision of service to its customers, and inflates the revenue requirement and should be rejected.[109] He further noted the Commission's warning in Case No. 2018-00281 about the possibility of reducing the equity ratio if Atmos Kentucky's equity ratio was found to be excessive as compared to that of its peers.[110] Baudino specified that the average equity ratio for the proxy group was 50.30 percent and the common equity ratios requested in recent Kentucky gas rate case filings include 50.695 percent for Duke Kentucky, 52.64 percent for Columbia Gas of Kentucky, and 51.76 percent for Delta Natural Gas.[111] Baudino recommended reducing the equity ratio from 57.05 percent to 53.50 percent, halfway between the proposed amount and the average of the gas proxy

[108] Application, FR_16(8)(j)_Att1_-_Schedule_J.xlsx and Direct Testimony of Dylan W. D'Ascendis (D'Ascendis Testimony), at 3.

[109] Direct Testimony of Richard A Baudino Testimony (Baudino Testimony), at 29.

[110] Baudino Testimony, at 30-31.

[111] Baudino Testimony, at 29 and 30.

group as a first step towards movement to a common equity ratio that is more in line with the proxy groups and, according to Baudino, is more reasonable and affordable for Atmos Kentucky's customers.[112]

For the short-term debt component, the expert witness for the Attorney General, Lane Kollen, averred that the short-term debt capitalization is *de minimis* and unnecessary and yet unreasonably increases the cost of capital and the return on rate base.[113] Kollen maintained that a reasonable level of short-term debt is approximately 2.0 percent of the total capitalization, or at least $240 million, and recommended a transition to the $240 million level by increasing the short-term debt ratio to 1.0 percent, or by $100 million, and to signal an increase to a 2.0 percent short-term debt ratio in the next base rate filing.[114] Kollen also recommended scaling down the commitment fees included in the short-term debt cost rate as the maximum commitment fees for each source of short-term debt is less than half of the fees included in Atmos Kentucky's application, which would result in a lower short-term debt rate.[115]

Finally, regarding the long-term debt component, Kollen proposed to increase the long-term debt component balance by the difference between the decrease in the common equity ratio and the increase in the short-term debt.[116] This shift increases the long-term debt balance $325 million. Kollen further recommended to apply the recent

[112] Baudino Testimony at 31.

[113] Kollen Testimony at 37.

[114] Kollen Testimony at 38.

[115] Kollen Testimony at 38.

[116] Kollen Testimony at 38-39.

cost of new long-term debt of 1.50 percent to this incremental increase.[117] Kollen recognized that his proposed capital structure is hypothetical but averred that the critical factor for the Commission is whether the capital structure is reasonable, not whether it is a forecast or a recent actual capital structure.[118]

Based upon the Attorney General's witnesses' recommendations, the proposed capital structure results in a WACC of 6.65 percent and is as follows:[119]

		Percent of Total	Cost Rate	13-month Avg. Cost
Short-Term Debt	$ 121,556,707	1.02%	2.57%	0.03%
Long-Term Debt	$ 5,444,937,524	45.49%	3.85%	1.75%
Common Equity	$ 6,403,047,900	53.50%	9.10%	4.87%
Total Capital	$11,969,542,131			6.65%

In rebuttal, Atmos Kentucky updated the capital structure through September 2021 to reflect the changes to the balances and cost of debt through the end of the base period. This update included an increase to the common equity ratio from 57.05 percent to 57.59 percent and an increase in the short-term debt rate from 25.17 percent to 80.94 percent. Atmos Kentucky also lowered the short-term debt balance, lowered the long-term debt cost rate to 3.84 percent to reflect recent issuances, and included interest rate swap impacts.[120] The resulting capital structure upon rebuttal is as follows:[121]

[117] Kollen Testimony at 39.

[118] Kollen Testimony at 39-40.

[119] Kollen Testimony at 43.

[120] Atmos Kentucky included interest rate swaps based upon an agreement with the Attorney General for a reduction to rate base for unrealized interest rate swaps if the corresponding adjustment is made to the capital structure. Atmos Kentucky's Response to Staff's Seventh Request for Information (filed Feb. 2, 2022), Item 1.

[121] Christian Rebuttal, Exhibit JTC-R-1-Revised, page 1 of 1.

		Percent of Total	Cost Rate	13-month Avg. Cost
Short-Term Debt	$ 6,704,749	0.05%	80.94%	0.04%
Long-Term Debt	$ 5,717,724,278	42.36%	3.84%	1.63%
Common Equity	$ 7,906,889,837			
Interest Rate Swaps	$ (131,981,063)	57.79%	10.35%	5.96%
Total Capital	$13,499,337,801			7.63%

In response to Baudino's proposed common equity balance, Atmos Kentucky stated that the company uses its actual capital structure as it represents its actual costs and has operated with a capital structure at its current capital structure since Case No. 2018-00281.[122] Atmos Kentucky continued, stating that using the operating subsidiary's capital structure is consistent with the Federal Energy Regulatory Commission's precedent.[123] Atmos Kentucky further argued that to provide safe, reliable, and affordable service to its customers, Atmos Kentucky must meet the needs of its customers, shareholders, and bondholders and safe and reliable service cannot be maintained at a reasonable cost if financial flexibility and strength to access competitive financing markets on reasonable terms does not exist.[124] Atmos Kentucky continued, claiming that a capital structure that understates actual common equity weakens the financial condition of its operation and would have an adverse impact on Atmos Kentucky's ability to address expenses and investment, and it would be a detriment to all stakeholders.[125] Atmos Kentucky stated its capitalization strategy allows Atmos Kentucky the ability to meet its need to accelerate the modernization of its pipeline, which in turn effectively supports the

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[122] Christian Rebuttal at 11.

[123] Rebuttal Testimony of Dylan W. D'Ascendis (D'Ascendis Rebuttal) at 55.

[124] D'Ascendis Rebuttal at 55.

[125] D'Ascendis Rebuttal at 55.

long-term safety of its system.[126] Atmos Kentucky further argued that this type of investment is contemplated and encouraged by governing regulation, and thus, results in an increased need to access the capital markets.[127] Further, Atmos Kentucky claimed that in order to maintain Atmos Kentucky's current credit rating, the equity component needs to be in the upper end of the target range for access at the lowest reasonable cost.[128] Atmos Kentucky also argued that although the common equity ratio of 57.59 percent is "somewhat above" the proxy group ratio of 32.15 percent to 52.51 percent, looking at it prospectively, *Value Line Investment Survey's* projected capital structures for the proxy group ranges from 38.50 percent and 57.00 percent for 2024-2026.[129]

Atmos Kentucky argued that both Kollen and Baudino limited their analysis and recommendation to comparison of the proxy group or other recent Commission outcomes and failed to perform an analysis on the financial impact of their recommendations on Atmos Kentucky's own financial metrics.[130] Atmos Kentucky supplied an analysis that key financial indicators are in the Intermediate category, which is the analytical basis for Atmos Kentucky's current debt rating, and both key financial indicators diminish from Intermediate to Significant when Kollen's and Baudino's recommendations are applied.[131] According to Atmos Kentucky, such a change implies that the Kentucky operations would not pull the same weight in the generation of funds from operations or coverage of debt

[126] Christian Revised Rebuttal at 8-9.

[127] Christian Revised Rebuttal at 8.

[128] Christian Revised Rebuttal at 9.

[129] D'Ascendis Rebuttal at 56-57.

[130] Christian Rebuttal at 9.

[131] Christian Rebuttal, at 10 and Exhibit JTC-R-2.

obligations as other Atmos Energy operations, and if Kentucky represented Atmos Energy on the market, higher financing costs would arise.[132]

Regarding the proposed recommendation to increase the short-term debt ratio to 2.0 percent, Atmos Kentucky disagreed with the recommendation and argued that Kollen applied the inverse of his equity argument and employed zero analysis to the increase in the long-term debt ratio, but rather just applied the balance of the recommended equity increase.[133] Atmos Kentucky noted that the company actively accesses the long-term debt market at the benefit of Atmos Kentucky's customers.[134] Atmos Kentucky averred that this activity is not done to minimize short-term debt but rather to lock in lower interest rates and is the result of balance sheet management. Atmos Kentucky did not address the commitment fees in rebuttal.[135]

In his final brief, the Attorney General reemphasized his opinion that the proposed capital structure should be rejected by the Commission as it is beyond traditional norms, unreasonable, and unnecessarily penalizes ratepayers.[136] The Attorney General argued that the proposed common equity ratio is a continuation of several years of ever increasing equity ratios and the Commission should determine a reasonable capital structure.[137] The Attorney General supported Baudino's testimony that the best evidence of a reasonable capital structure is the average for the gas proxy groups and set an equity

[132] Christian Rebuttal at 10.

[133] Christian Rebuttal at 16

[134] Christian Rebuttal at 17.

[135] Christian Rebuttal at 17.

[136] Attorney General's Brief at 25.

[137] Attorney General's Brief at 26-27.

ratio that represents a two-step transition towards this average.[138] In addition, the Attorney General recommended that the Commission follow Kollen's recommendation regarding the level of short-term and long-term debt balances to further allow for a shift away from the heavily weighted equity component in Atmos Kentucky's capital structure.[139] The Attorney General cautioned the Commission against relying on the exiting capital structure as Atmos Kentucky's choice to utilize common equity financing in lieu of lower cost short-term or long-term financing is not proof that Atmos Kentucky's capital structure is reasonable.[140] Additionally, the Attorney General recommended scaling down the commitment fees, as proposed by Kollen.[141]

Atmos Kentucky noted that a utility's rates should be set to cover operating expenses and the cost of capital.[142] Atmos Kentucky further stated that safety and other infrastructure capital spending is increasing and set by regulatory standards, and, in order to undertake the necessary level of capital investment, Atmos Energy management team, in support of the long-term business strategy to enhance the safety of our customers, has strengthened and maintained Atmos Energy's balance sheet by incorporating a higher level of equity in its capital structure for the benefit of both customers and owners.[143] Atmos Kentucky maintained that the Attorney General has failed to provide any evidence to discredit the use of the current capital structure as he has not put forth any evidence

[138] Attorney General's Brief at 27.

[139] Attorney General's Brief at 28-29.

[140] Attorney General's Brief at 29.

[141] Attorney General's Brief at 30.

[142] Atmos Kentucky's Brief (filed Jan. 14, 2022) at 14.

[143] Atmos Kentucky's Brief at 14-16.

that the management of Atmos Energy has made unsound or imprudent decisions regarding the financing and resulting capital investment, but instead it is a difference in opinion, and thus, the use of the actual capital structure should be allowed.[144] Atmos Kentucky further emphasized the reasonableness of Atmos Kentucky's capital structure, the importance of the relationship between credit metrics and ratings and the cost of capital and cost to Atmos Kentucky's customers, and that the actual capital structure, as filed in Rebuttal, will allow for recovery of all costs during the forecasted test year. Atmos Kentucky noted that the capital structure, as proposed by the Attorney General, is arbitrarily imputed, contains an equity component that is lower than any experienced by Atmos Energy in the recent or forecasted periods, and will result in an under recovery of capital costs during the test year.[145]

Atmos Kentucky admitted to strengthening the equity component and believes that such a strategy benefits Atmos Kentucky's customers, specifically during recent events such as the COVID-19 pandemic, the February 2021 winter event, the implementation of the Tax Cuts and Jobs Act, and the recent tornadoes within Atmos Kentucky's service territory.[146] The table below lists the common equity ratios for Atmos's present and past four rate cases:

[144] Atmos Kentucky's Brief at 16.

[145] Atmos Kentucky's Brief at 17–18.

[146] Atmos Kentucky's Brief at 15–16.

Case No.	Common Equity Ratio
Pending Case	57.79%
Case No. 2018-00281	58.06%
Case No. 2017-00349[147]	52.57%
Case No. 2015-00343[148]	None Specified
Case No. 2013-00148[149]	49.16%

Additionally, *Value Line Investment Survey* estimates Atmos Energy's common equity ratio balance to reach 60.0 percent over the next four years.[150] In the final Order of Case No. 2018-00281, the Commission voiced its concern over the size of Atmos Kentucky's common equity ratio and agreed with the Attorney General that it was excessive compared to its peers and results in an increase in the cost of capital and base revenue requirement. The Commission accepted the filed equity component but cautioned Atmos Kentucky about the high common equity ratio and placed Atmos Kentucky on notice that in a future rate filing, the Commission may make adjustments to Atmos Kentucky's common equity ratio, for ratemaking purposes, to be comparable to its peers.[151]

In this proceeding, the Commission still has concerns regarding the size of the common equity ratio. Although it is smaller than the prior base rate case, the difference is *de minimis*. The Commission also disagrees with Atmos Kentucky's contention that

[147] Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC May 3, 2018), Order at 20.

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

[149] 7 Case No. 2013-00148, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Apr. 22, 2014) at 9.

[150] Attorney General's Response to Staff's Second Request for Information (filed Jan. 6, 2022) (Staff's Second Request), Item 4.

[151] Case No. 2018-00281, Order at 34-35.

the equity ratio is within reason of the prospective average for a period of two to four years beyond the end of the forecasted test period.[152] This argument is unsupported as the average for 2022 is expected to be 47.3 percent and 51.9 percent for 2024-2026 projections as compared to 60.0 percent.[153] Additionally, Atmos Kentucky's contention that a high equity component supports government mandates regarding pipe replacement and capital investment is unsupported as its peers who have capital structures containing lower equity components, perform similar capital investments and are required to meet the same safety requirements. Further, Atmos Kentucky's argument that modifying the capital structure applied for ratemaking purposes in Kentucky as proposed by the Attorney General will impact Atmos Energy's debt rates is unsubstantiated. Atmos Kentucky's equity ratio remains significantly higher than its peers for no other reason than for stockholder benefits. The Commission finds that the proposed capital structure as filed and revised upon rebuttal is not reasonable nor does it result in fair and just rates for Kentucky's consumers. The Commission finds Atmos Kentucky's common equity ratio shall be reduced to 54.50 percent. This represents the median for the 2024-2026 prospective period.[154] In addition, in subsequent rate case filings, the Commission will review the proxy group common equity ratios and will further transition down to the average common equity ratio of 50.0 percent or a median or average, whichever the facts merit. The Commission will place the equity balance onto long-term debt at Atmos Kentucky's current average long-term debt rate of 3.84 percent.

[152] D'Ascendis Rebuttal at 59.

[153] Attorney General's Response to Staff's Second Request, Item 4.

[154] Attorney General's Response to Staff's Second Request, Item 4.

Regarding Kollen's proposed adjustment to the short-term debt balance, the Commission finds that the short-term debt as filed on rebuttal, which represents the capital structure at the end of the base period or September 2021[155] to be reasonable and, although it is uncharacteristically low as compared to the rest of the test year, the Commission chooses to not alter the balance at this time.

Return on Equity

Atmos Kentucky developed its proposed ROE of 10.35 percent based upon the Discounted Cash Flow Model (DCF), the Capital Asset Pricing Model (CAPM), and the Risk Premium Model (RPM) (collectively, Models).[156] In its analysis, Atmos Kentucky used a utility proxy group of seven regulated natural gas utilities (Utility Proxy Group), and a proxy group of forty-eight nonprice regulated companies (Nonprice Regulated Proxy Group).[157] The proxy groups were selected on the basis of several risk measures, including both business risk and financial risk. Additionally, the utility proxy group met a set of criteria in order to remain representative of the risks and prospects faced by Atmos Kentucky.[158] The estimated ROE results ranged from 9.58 percent to 12.66 percent after certain risk adjustments were applied including a size adjustment, risk adjustment and a flotation cost adjustment.[159] Atmos Kentucky averred that the proposed ROE is both commensurate with returns in businesses of similar risks, and captures the continued

[155] Christian Rebuttal at 6.

[156] D'Ascendis Testimony at 3.

[157] D'Ascendis Testimony at 3-4.

[158] D'Ascendis Testimony at 9-12, generally; D'Ascendis Testimony at 12-13. *See* also Atmos Kentucky's Responses to Staff's Second Request, item 36c.

[159] D'Ascendis Testimony at 3-4, lines 13-18 and 1-2, respectively, and Table 2 at 4.

uncertainty related to the COVID-19 pandemic and the unknown timeframe for when economic conditions will normalize.[160] Atmos Kentucky maintained that the use of multiple models adds reliability to the estimated common equity cost rate, and is supported in both the financial literature and by regulatory precedent.[161] No reduction to Atmos Kentucky's capital cost recovery rider, the PRP was proposed. The estimated ROE results plus the three adjustments are shown below.[162]

Atmos Kentucky's Cost of Common Equity Rates	
Discounted Cash Flow Model	9.44%
Risk Premium Model	10.96%
Capital Asset Pricing Model	11.75%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Companies	12.42%
Indicated Range	9.44% - 12.42%
Size Adjustment	0.20%
Credit Risk Adjustment	-0.10%
Flotation Cost Adjustment	0.04%
Recommended Range	9.58% - 12.66%
Recommended Cost of Common Equity	10.35%

Direct intervenor testimony and analysis regarding ROE was sponsored by the Attorney General and performed by Richard A. Baudino. Baudino's analysis used the DCF and the CAPM model. Using a proxy group of seven regulated natural gas distribution companies, and the DCF model only, a ROE range of 8.40 percent to 9.40

[160] D'Ascendis Testimony at 4-7.

[161] D'Ascendis Testimony at 42.

[162] D'Ascendis Testimony Table 2 at 4.

percent was obtained.[163] For the CAPM analysis, Baudino evaluated both historical and forecasted risk premiums as an alternative method to calculate ROE stating the belief that the CAPM is less reliable than the DCF because considerable judgement must be employed to determine market returns and expected risk premium elements and analyst's judgement can influence the results significantly.[164] In addition, Baudino recommended that the Commission consider a 10-20 basis point reduction in the allowed ROE for Atmos Kentucky's PRP rider.[165] The following table summarizes the Attorney General's results:[166]

Attorney General Cost of Common Equity Rates	
Discounted Cash Flow Model	
Average Growth Rates	
High	10.81%
Low	8.42%
Average	9.49%
Median Growth Rates	
High	10.60%
Low	8.05%
Average	9.20%
CAPM Methodology	
Forward-looking Market Return	
Current 30-year Treasury	8.69%
D&P Normal Risk-Free Rate	8.73%
Historical Risk Premium	
Current 30-year Treasury	7.56% - 8.73%
D&P Normal Risk-Free Rate	7.90% - 9.07%

[163] Baudino Testimony at 3, 17, and 28.

[164] Baudino Testimony at 3, 15, and 23-24.

[165] Baudino Testimony at 3 and 32-34.

[166] Baudino Testimony at 28.

Baudino argued that his recommended ROE is reasonable given the lower risk of the regulated gas business as compared to the regulated electric business, and that it is consistent with investor expectations and requirements in the current economic environment of low interest rates.[167] In addition, the CAPM ROE estimates are generally below the DCF estimates, which further supports the reasonableness of the recommended ROE.[168] Baudino also referred to *Value Line Investments* statements regarding the natural gas distribution sector indicated that that it was providing a consistent income stream to investors with relatively stable earnings, which indicates that the proxy group had lower risk than the overall stock market.[169]

Baudino took issue with multiple assumptions used in Atmos Kentucky's ROE calculations and concluded that its 10.35 percent recommendation was inconsistent with current financial market evidence and the low interest rate environment.[170] In addition, Baudino argued that D'Ascendis's approach to reach his recommended ROE was unreasonable and stemmed from excessively high ROE results from his risk premium and CAPM analyses as well as the inclusion of an additional proxy group of 48 non-price regulated companies.[171] Baudino also noted that an ROE of 10.35 greatly exceeds recent Commission ROE awards.[172]

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[167] Baudino Testimony at 3

[168] Baudino Testimony at 3.

[169] Baudino Testimony at 15.

[170] Baudino Testimony at 11-15 and 35.

[171] Baudino Testimony at 36.

[172] Baudino Testimony at 37.

Regarding D'Ascendis's DCF calculations, Baudino argued that in addition to using earnings growth rates, dividend growth rates should have been included because dividend payments comprise a significant portion of the total return to investors.[173] Regarding the Risk Premium (RP) analyses, Baudino argued that they are too imprecise and should only be used as a guide for estimating ROEs in regulated proceedings.[174] Regarding the Predictive Risk Premium Model (PRPM) and the total market RP approaches, Baudino claimed that D'Ascendis failed to consider current bond yields and interest rates, which led to unrealistically high ROEs.[175] Concerning the PRPM, Baudino argued that it should be rejected because it is unproven, and not widely accepted. Baudino also noted it had been rejected by the Florida Public Service Commission and argued that it produces excessive ROE results.[176] Regarding the CAPM and ECAPM analyses, the Attorney General argued that Atmos's CAPM and ECAPM results, which are based on overstated expected market returns and long-term growth rates, are so overstated for a regulated gas utility that they should be rejected out of hand.[177] In addition, Baudino maintained that the use of the ECAPM to correct for companies with betas less than 1.0 is another indication that the model is not sufficiently accurate and the use of unregulated companies as proxies for a regulated company is inappropriate.[178]

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[173] Baudino Testimony at 37-38.

[174] Baudino Testimony at 38.

[175] Baudino Testimony at 38-42.

[176] Baudino Testimony at 42-44.

[177] Baudino Testimony at 45-48.

[178] Baudino Testimony at 50-51.

Finally, Baudinio argued that the inclusion of size adjustments and flotation cost adjustments is inappropriate and should be rejected.[179]

In rebuttal, Atmos Kentucky argued that Baudino's original ROE recommendation of 10.35 percent for its base rates remains both reasonable and conservative.[180] In addition, Atmos Kentucky provided an updated ROE analysis using the same methods and updated data as of September 30, 2021, which illustrated an even higher ROE range.[181]

Atmos Kentucky discussed several issues found in Baudino's analysis including the exclusive reliance on the constant growth DCF model results to determine his recommended ROE.[182] Atmos Kentucky implied that the absence of multiple models in the Attorney General's analysis reduces the reliability of the estimated common equity cost rate.[183] Further, Atmos Kentucky argued that the DCF assumes a Market-to-Book (M/B) ratio of 1.0 and is prone to either under or over-estimate investors' required returns when a disparity exists.[184] In addition, Atmos Kentucky argued that the use of earnings per share growth rates is more appropriate in DCF analyses than the use of dividends per share growth rates.[185] Atmos Kentucky also found fault with Baudino's CAPM analysis reliance on a recent six month average of the 30-year Treasury bond yield as

[179] Baudino Testimony at 38-42.

[180] D'Ascendis Rebuttal at 2.

[181] D'Ascendis Rebuttal at 2.

[182] D'Ascendis Rebuttal at 4.

[183] D'Ascendis Rebuttal at 4.

[184] D'Ascendis Rebuttal at 7.

[185] D'Ascendis Rebuttal at 12.

the risk free rate, failure to consider several approaches to calculating the market risk premium, and failure to incorporate the empirical CAPM analysis to correct for low-beta values.[186]

In its brief, Atmos Kentucky reiterated arguments put forth by D'Ascendis that the ROE should be sufficient to support both the business and financial risk of the company on a stand-alone basis.[187] The DCF model, the Risk Premium Method, the PRPM and CAPM models all utilize market data. Atmos Kentucky argued that it is appropriate to rely on multiple model results because reasonable investors use a variety of tools and do not rely exclusively on a single information source or model.[188] Reliance on multiple models adds reliability to estimated common equity rates and is supported by both financial literature and regulatory prudence.[189] Atmos Kentucky argued for and defended its use of size adjustments and flotation costs in arriving at its 10.35 percent recommendation. Critiquing Baudino's analyses, Atmos Kentucky argued that only the DCF and CAPM models were used, the analyses were flawed and only the DCF results were relied upon as the basis for his ROE recommendation.[190] Finally, Baudino failed to use the Empirical CAPM to account for low beta valued securities.[191]

In his brief, the Attorney General argued that Baudino's recommended 9.10 percent ROE is reasonable given the low risk nature of Atmos Kentucky's regulated gas

[186] D'Ascendis Rebuttal at 23-24.

[187] Atmos Kentucky's Brief at 16.

[188] Atmos Kentucky's Brief at 18-19.

[189] Atmos Kentucky's Brief at 19.

[190] Atmos Kentucky's Brief at 21.

[191] Atmos Kentucky's Brief at 22.

business and it's consistent with investor expectations and requirements in the current economic environment of low interest rates.[192] Baudino utilized both the DCF and CAPM models with both historical and forecasted data from multiple sources and the same utility proxy group as D'Ascendis.[193] The recommendation is based upon the DCF results only because the CAPM results were generally lower than the DCFR results. Further, the CAPM model is a less reliable approach than the DCF model.[194] Based on recent precedent, Baudino recommended a 10-20 basis point ROE reduction for Atmos Kentucky's PRP rider.[195] The Attorney General argued that D'Ascendis' ROE analyses results were so high that they should not be seriously considered for a lower risk regulated gas distribution utility.[196] In addition, there were flaws in the DCF, CAPM and RPM model analyses, the use of ECAPM is suspect, the use of non-price regulated companies as proxies, and the use of the PRPM model is inappropriate. Finally, the use of size adjustments, and financial adjustments are inappropriate and have been rejected by this Commission in recent cases.[197]

[192] Attorney General Brief at 32.

[193] Attorney General Brief at 31.

[194] Attorney General Brief at 31.

[195] Attorney General Brief at 33.

[196] Attorney General Brief at 34.

[197] Attorney General Brief at 34–37.

Most recently in Case Nos. 2021-00183,[198] 2021-00185,[199] and 2021-00190,[200] the Commission explained why it is appropriate for utilities to present, and for the Commission to evaluate, multiple methodologies to estimate ROEs. Each approach has its own strengths and limiting assumptions. As demonstrated in the respective ROE testimonies in this proceeding, there is considerable variation in both data and application within each modeling approach, which can lead to very different results. The Commission's role is to conduct a balanced analysis of all presented models, while giving weight to current economic conditions and trends.

The Commission cautions all parties against unreasonably removing or ignoring "outlier" data due to a subjective perception of being "too high" or "too low." As demonstrated in the case record, there are a number of actions that can be and were taken to account for "outlier" or "unreasonable" data. Result oriented exclusions of data that are not beyond the realm of reasonableness are inappropriate. Results based upon excluded data without adequate support will be given less weight in future Commission determinations.

Even though the Commission supports the use and presentation of multiple modeling approaches, the Commission finds that Atmos Kentucky's use of the Predictive Risk Premium Model (PRPM) should be rejected. Though the PRPM model has been

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[198] *See* generally Case No. 2021-00183, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity; And Other Relief* (Ky. PSC Dec. 28, 2021).

[199] *See* generally Case No. 2021-00185, *Electronic Application of Delta Natural Gas Company, Inc. for an Adjustment if Its Rates and a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 3, 2022).

[200] *See* generally Case No. 2021-00190, *Electronic Application of Duke Energy Kentucky, Inc. for: 1) An Adjustment of the Natural Gas Rates; 2) Approval of New Tariffs, And 3) All Other Required Approvals, Waivers, and Relief* (Ky. PSC Jan. 28, 2021).

published and presented in multiple forums, it has been rejected by this Commission and only been addressed by three other regulatory commissions thus far and is not universally accepted.[201]

The Commission reiterates that it continues to reject the use of flotation cost adjustments, financial risk adjustments, and size adjustments in the ROE analyses. The Commission will evaluate all models but will accord most weight to DCF and CAPM analyses based upon regulated company proxy groups. Both the DCF and CAPM are long standing, well accepted models that model risk and returns both implicitly and explicitly. After consideration of the evidence of record, the Commission finds that an ROE of 9.23 percent for Atmos Kentucky's base rates and an ROE of 9.13 percent for its natural gas capital riders is fair, just and reasonable. An ROE of 9.23 percent is lower than recent Commission awards for gas utilities, but those awards were tied to stay-out provisions or for a utility that is significantly smaller, rural and had not requested a rate increase for over ten years. Additionally, in deciding upon the approved ROE, the Commission is also balancing the recent destruction due to the devastating tornados and customer bill impact during the region's recovery, as well as the still high equity percentage.

Rate-of-Return Summary

Applying the cost rates of 80.94 percent for short-term debt, 3.84 percent for long-term debt, and 9.23 for common equity to the Commission revised capital structure

[201] *See* the Final Order in Case No. 2021-00183 ((Ky. PSC Dec. 28, 2021) at 14 and Atmos Kentucky's Response to the Attorney General's First Request for Information, Item 66b, filed Aug 23, 2021.

percentages consisting of 0.05 percent, 45.45 percent, and 54.50 percent, respectively, produces and overall weighted cost of capital of 6.82 percent.

		Percent of Total	Cost Rate	13-month Avg. Cost
Short-Term Debt	$ 6,704,749	0.05%	80.94%	0.04%
Long-Term Debt	$ 6,135,493,495	45.45%	3.84%	1.73%
Common Equity	$ 7,489,119,620			
Interest Rate Swaps[202]	$ (131,981,063)	54.50%	9.23%	5.03%
Total Capital	$13,499,337,801			6.82%

REVENUE REQUIREMENTS

Based upon Atmos Kentucky's revised requested increase of $15.052 million and recognizing downward adjustments of $10.796 million found reasonable herein,[203] Atmos Kentucky's revenue deficiency is $4.256 million. As discussed above, temporary amortization of regulatory liabilities of $1.644 million shall continue until the regulatory liabilities are exhausted or the effective date of Atmos Kentucky’s next base rate case, whichever comes first. The resulting net increase to base rates is $2.613 million or 1.51 percent.

RATE DESIGN

Cost of Service Study (COSS)

Atmos Kentucky filed three fully allocated cost of service studies (COSS). For all three studies, the demand allocators are based upon the demand to meet the coincident peak. For the allocation of the distribution mains, the Customer/Demand Study, allocated

[202] Atmos Kentucky included interest rate swaps based upon an agreement with the Attorney General for a reduction to rate base for unrealized interest rate swaps if the corresponding adjustment is made to the capital structure. Atmos Kentucky’s Response to Staff’s Seventh Request for Information, Item 1.

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

the distribution mains between customer and demand costs based upon the minimum system method, as the zero-intercept method failed. For the Demand Only Study, the distribution mains were allocated based upon demand only. Finally, Atmos Kentucky performed a Demand/Commodity Study based upon the average and excess methodology where consideration is focused on volume of use. The Attorney General's Testimony did not address Atmos Kentucky's COSSs and did not propose an alternate COSS.

Revenue Allocation

For the revenue allocation, Atmos Kentucky examined the minimum and maximum subsidy that existed between each class at the proposed rate of return (ROR) from each COSS and roughly allocated the revenue based on the average revenue increase between the three COSSs necessary for an equalized ROR.[204] As a result, the residential class received over 59 percent of the increase. Below illustrates the relative ROR at current rates and at Atmos Kentucky's proposed rates:

	Residential	Non-Res Firm	Non-Res Inter	Trans Firm	Trans Inter
Customer/Demand[205]					
Current	0.74	1.45	1.26	1.65	1.54
Proposed	0.80	1.41	1.43	1.42	1.36
Demand Only[206]					
Current	1.05	1.10	0.42	0.78	0.71
Proposed	1.05	1.11	0.63	0.75	0.71
Demand/Commodity[207]					
Current	1.22	1.24	0.18	0.44	0.22
Proposed	1.19	1.22	0.42	0.49	0.33

[204] Application, Direct Testimony of Paul H. Raab (Raab Testimony) at 20, and Exhibit PHR-5, page 2 of 2.

[205] Raab Testimony, Exhibit PHR-2, page 1 of 75.

[206] Raab Testimony, Exhibit PHR-3, page 1 of 75.

[207] Rabb Testimony, Exhibit PHR-4, page 1 of 75.

The Commission has expressed its concern about the demand/customer expense allocation for distribution plant classification and the Commission's preference for the zero-intercept method.[208] Although this concern has been expressed in electric rate cases, it was also recently expressed for natural gas[209] as the same concept applies to natural gas in that if the zero-intercept analysis does not provide reasonable results, then this indicates little relationship between the amount of costs and the number of customers. The Commission gives substantial weight to the evidence from the COSS that indicates whether certain classes are earning more than other rate classes relative to their cost of service and has required that in instances where the zero-intercept results are not reasonable, it would allocate the costs to 100 percent demand.

For the reasons set forth above regarding the deficiencies of using a minimum system method, the Commission rejects the Customer Demand Study. The Commission approves the use of the Demand Only Study as a guide for revenue allocation and rate design. The results of the Demand Only Study illustrate that the residential class is slightly subsidizing other rate classes. However, due to the tie between the volumetric rates for the G-1 Firm Sales Service and Transportation Service and the G-2 Interruptible Sales Service and T-3 Interruptible Transportation, removing the subsidization in the residential class results in a rate design that diverges far too much from the current rate design. Therefore, the Commission shall allocate the change in revenue as approved herein proportionally, as filed.

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[208] *See*, Case No. 2020-00131, Electronic Application of Meade County Rural Electric Cooperative Corporation for an Adjustment in Rates (Ky. PSC Sept. 16, 2020), Order at 12.

[209] *See*, Case No. 2021-00190, *Electric Application of Duke Energy Kentucky, Inc. for: 1) an Adjustment of Natural Gas Rates; 2) Approval of New Tariffs, and 3) All other Required Approvals, Waivers, and Relief* (Ky. PSC Jan 25, 2022).

Rate Design

Atmos Kentucky 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 $24.29 for residential customers, revised to $24.00 on rebuttal, and to $66.00 for non-residential customers. In the last five years, the residential customer charge has increased from $16.00 to the current charge of $19.30. The current residential customer charges among Kentucky's large gas utilities include $19.50 for Louisville Gas and Electric,[210] $19.75 for Columbia Gas of Kentucky,[211] and $17.50 for Duke Energy Kentucky.[212]

The Attorney General argued that Atmos Kentucky has not presented any evidence that the current customer charge is insufficient for the company to meet its revenue requirement, nor does the increase support the principles of rate gradualism.[213] He continued stating that this proposed increase comes at a time when customers in Atmos Kentucky's service territory are recovering from a devastating natural disaster as

[210] *See*, Case No. 2020-00350, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rages, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit* (Ky. PSC Dec. 6, 2021), Appendix C, page 8 of 10. $0.65*30=$19.50.

[211] *See*, Case No. 2021-00183, Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity; and Other Relief (Ky. PAS Dec. 29, 2021), Appendix B, page 1 of 1.

[212] *See*, Case No. 2021-00190, Dec. 28, 2021 Order, Appendix C, page 1 of 1.

[213] Attorney General's Brief at 43.

well as seeing a 23 percent increase in the gas commodity cost.[214] Therefore, the Attorney General urged the Commission to evaluate the totality of the rate increase.[215]

The proposed residential customer charge increase, if approved, will result in Atmos Kentucky being one of the most expensive customer charges in the Commonwealth. Further, the Commission agrees that given the recent natural disaster and increases in commodity costs, thoughtful consideration needs to be given to the totality of the rate increase. Therefore, the Commission is denying the increase to the Residential Sales monthly customer charge and finds that the monthly charge shall remain at $19.30. The Commission further finds that the proposed customer charges for the remaining rate classes are within the range of reasonableness and are approved.

Nonrecurring Charge Forecast

For the late payment charge revenue forecast, Atmos Kentucky used an average of fiscal years 2017–2019 to determine forecasted late payment charges. For its other nonrecurring charges, Atmos Kentucky used the actual for the 12 months ending March 31, 2021, to forecast its nonrecurring charge revenue.[216] Atmos Kentucky argued that based upon a review of the impacts of COVID-19, it has seen that the reduction in revenue has been offset by a reduction in O&M expenses.[217] Atmos Kentucky stated that due to the uncertainty of when nonrecurring charges will return to a normal level, they chose not to make any changes to other nonrecurring charge revenue and that the reduced revenue

[214] Attorney General's Brief at 43.

[215] Attorney General's Brief at 43.

[216] Atmos Kentucky's response to Commission Staff's Second Request, Item 54(a).

[217] Atmos Kentucky's response to Commission Staff's Second Request, Item 54(b).

and O&M expenses will continue to offset each other.[218] As Atmos Kentucky used an average of fiscal years 2017–2019 to forecast its late payment fee revenues, the Commission finds that the same time period should be used to forecast other nonrecurring charge revenues. Based upon the revised period used to forecast revenues and the revisions to nonrecurring charges discussed later in this order, the amount of forecasted nonrecurring charge revenue is reduced from $234,286 to $108,769 as detailed below.

Charge	FY 2017-2019 Avg. Occurrences	Approved Amount	Total Revenue	Forecasted Revenue	Difference
Read (Reg)	13,113	$3.00	$39,339.00	$136,968.00	($97,629.00)
Meter Set (Reg)	2,505	3.00	7,515.00	36,550.00	(29,035.00)
Meter Set (After)	1	44.00	44.00	0.00	44.00
Seasonal (Reg)	282	3.00	846.00	195.00	651.00
Ret. Check	3,126	4.00	12,504.00	54,800.00	(42,296.00)
Rec. Del. (Reg)	3,932	3.00	11,796.00	0.00	11,796.00
Rec. Del. (After)	1	47.00	47.00	0.00	47.00
Turn-On (Reg)	12,170	3.00	36,510.00	5,773.00	30,737.00
Turn-On (After)	6	28.00	168.00	0.00	168.00
			$108,769.00	$234,286.00	($125,517.00)

As a result, an increase to the Revenue Requirement for base rates that corresponds with an equivalent decrease in Nonrecurring Charge Revenue is necessary.

Late Payment Fee Revenue

Information provided by Atmos Kentucky indicated that for fiscal years 2017-2019, the percent of late payment fee revenue to total revenue from Commercial and Public Authority customers was 0.63 percent and 0.55 percent, respectively.[219] To determine the appropriate amount of late payment fee revenue, the Commission determined the

[218] Atmos Kentucky's response to Commission Staff's Second Request, Item 54(b).

[219] Atmos Kentucky's response to Commission Staff's Second Request, Item 26, Attachment 2.

amount of revenue to be derived from Commercial and Public Authority customers as a result of the revised revenue requirement and multiplied those amounts by 0.63 percent and 0.55 percent. Based on the calculation described above and the removal of the residential late payment fee discussed later in this order, the Commission determined that late payment fee revenue should be reduced by $0.997 million, $0.874 million being attributable to the removal of residential late payment fees and $0.123 million being attributable to the reduction in commercial and public authority late payment fees. As a result, an increase to the Revenue Requirement for base rates that corresponds with an equivalent decrease in late payment fee revenue is necessary. A chart containing a summary of the revenue requirement, as proposed by Atmos Kentucky and as modified herein, is attached to this Order as Appendix A.

PIPE REPLACEMENT PROGRAM

Aldyl-A Replacement Projects

Atmos Kentucky proposed to expand its current PRP to include the accelerated replacement of Aldyl-A pipe. Atmos Kentucky stated that Aldyl-A pipe is made of materials that are considered obsolete and are no longer used and places risks on Atmos Kentucky's distribution system, which contains approximately 205 miles of Aldyl-A pipe.[220] Atmos Kentucky stated that leaks on Aldyl-A average 35 percent higher per 100 miles than leaks on other types of polyethylene pipe and 250 percent higher per 100 mile of pipe when compared with leaks on coated steel pipes.[221] Atmos Kentucky noted that not all Aldyl-A needs to be replaced immediately, and will prioritize replacement based upon

[220] Direct Testimony of T. Ryan Austin (Austin Testimony) at 23.

[221] Austin Testimony at 25-26.

material, location of the pipe in relation to population, and relative risk from third party damage.[222] Atmos Kentucky proposed to target Cadiz, Kentucky (Cadiz Project), first as this portion of the system has had a history of leaks caused by the rocky bedding conditions impinging on the Aldyl-A pipe, at a forecasted test year cost of $2.794 million.[223]

Kollen recommended that the Commission reject the inclusion of Aldyl-A in the PRP because there is no imminent need to replace this material.[224] Kollen argued that Atmos Kentucky's bare steel replacement program will not be complete until 2027, and the accelerated replacement of Aldyl-A would compound the annual rate base increase.[225] Kollen noted that Atmos Kentucky failed to provide a schedule or cost estimate to completely replace all Aldyl-A pipe.[226] Kollen recommended that the Commission allow the proposed incremental accelerated Aldyl-A replacement costs be included in the base revenue requirement, and if Atmos Kentucky does not complete the projects included in the base revenue requirement, apply a clawback of the related base revenues.[227] Additionally, Kollen recommended that Atmos Kentucky be required to file reports with the Commission following project completion, and, if the project was not

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[222] Austin Testimony at 27.

[223] Austin Testimony at 28-29.

[224] Kollen Testimony at 44.

[225] Kollen Testimony at 44-45.

[226] Kollen Testimony at 45.

[227] Kollen Testimony at 46.

complete, the clawback revenue total and to record this revenue as a regulatory liability for disposition in the next base rate case.[228]

Atmos Kentucky argued that Kollen's position is inconsistent with the Attorney General's position in Columbia Kentucky's rate case, Case No. 2021-00183,[229] where the Attorney General's witness, David Dittemore, recommended the inclusion of Aldyl-A replacement pipe in Columbia Kentucky's Safety Modification and Replacement Program rider.[230] Atmos Kentucky stated it has identified Aldyl-A projects for replacement for two years and is able to estimate the number of years necessary to replace the Aldyl-A inventory.[231] Atmos Kentucky disagreed with Kollen's proposal to include accelerated Aldyl-A replacement in the base revenue requirement stating it is not a comprehensive solution.[232] Atmos Kentucky stated that Aldyl-A replacement is necessary for safety and reliability and because Atmos's non-PRP capital spend is also subject to an annual cap, such constraints may result in Aldyl-A replacement not occurring outside of the PRP.[233] Atmos Kentucky maintained excluding Aldyl-A from recovery on capital spend constrains investment associated with economic development and growth.[234] Atmos Kentucky argued that since its last rate case, there is a new emphasis by federal regulators to

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[228] Kollen Testimony at 46-47.

[229] Case No. 2021-00183, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity; and Other Relief* (Ky. PSC Dec. 28, 2021).

[230] Rebuttal Testimony of T. Ryan Austin (Austin Rebuttal) at 3 and Atmos Kentucky's Final Brief at 35.

[231] Austin Rebuttal at 8.

[232] Austin Rebuttal at 9.

[233] Austin Rebuttal at 2, Christian Rebuttal at 35m and Atmos Kentucky's Brief at 34.

[234] Christian Rebuttal at 35 and Atmos Kentucky's Brief at 40.

address pipeline safety, particularly Aldyl-A, and utilities must have appropriate replacement cycles for all pipeline infrastructure.[235] Atmos Kentucky stated that Kollen ignored the need to modify the PRP tariff to enhance safety concerns and instead focused on cost concerns.[236] Atmos Kentucky admitted that the existence of the PRP does reduce lag and supports Atmos Kentucky's credit health, but there are also customer benefits including safer service, more affordable service, and more reliable service thus striking a balance between the customer and Atmos Kentucky.[237]

The Attorney General again reiterated that there is no immediate need to replace the Aldyl-A pipes, and noted that this is something that Atmos Kentucky itself acknowledged.[238] The Attorney General argued that the lack of a schedule, cost estimate, and annual or aggregate cost limits would allow for unchecked spending, which is concerning as the Commission has had to caution Atmos Kentucky about excessive spending in the past.[239] The Attorney General noted that the Commission recently rejected the inclusion of accelerated replacement and cost recovery of Aldyl-A for Columbia Kentucky and should likewise reject Atmos Kentucky's proposal.[240] The Attorney General did recommend the inclusion of Aldyl-A replacement costs in the base

[235] Atmos Kentucky's Brief at 27 and 29.

[236] Atmos Kentucky's Brief at 35.

[237] Atmos Kentucky's Brief at 37.

[238] Attorney General's Brief at 38.

[239] Attorney General's Brief at 39-40.

[240] Attorney General's Brief at 40.

revenue requirement, but reiterated Kollen's suggestion regarding the clawback of any costs not spent.[241]

As required by PRP tariff, the impact of Atmos Kentucky's PRP investment is reflected in the total proposed revenue requirement. Per the PRP tariff, Atmos Kentucky filed Case No. 2021-00304 in August which included Atmos Kentucky's forecasted spend between October 1, 2021, and September 30, 2022, of $27.9 million.[242] Due to the instant case, the Commission suspended Case No. 2021-00304 pending the results of this case. Atmos Kentucky has proposed to include the forecasted spend in base rates and reset the PRP to $0 through September 2022.

Atmos Kentucky's below ground leaks have decreased from 18.83 per 100 miles to 14.11 per 100 miles between 2016 and 2020. However, below ground leaks associated with bare steel has remained rather constant between 2016 and 2020 at 45.76 per 100 miles and 47.69 leaks per 100 miles, respectively, whereas below ground leaks for Aldyl-A pipe has fallen from a high of 35.47 leaks per 100 miles in 2016 to 27.21 leaks per 100 miles in 2020.[243] Although a concern, plastic pipe is not a safety issue that is on the same magnitude as bare steel, which is still on the system to be replaced. Further, although Aldyl-A pipe is a risk, Aldyl-A materials and other industry identified vintage plastics are considered to be a sub-threat and Aldyl-A represents only approximately 5.00 percent of Atmos Kentucky's total system.[244] Therefore, the Commission finds that Atmos

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[241] Attorney General's Brief at 40.

[242] Case No. 2021-00304, *Electronic Application of Atmos Energy Corporation to Establish PRP Rider Rates for the Twelve Month Period Beginning October 1, 2021* (Ky. PSC filed July 30, 2021).

[243] Atmos Kentucky's Response to Staff's Second Request, Item 31.

[244]Atmos Kentucky's Response to Staff's Second Request, Items 30 and 31.

Kentucky's proposal to include Aldyl-A pipe in its PRP is denied. The inclusion of future Aldyl-A pipelines will be determined on a case by cases basis and any PRP applications including Aldyl-A projects should at minimum include safety justifications for such projects. The Commission approves of the inclusion of the $2.794 million for the Cadiz Project in the test year revenue requirement.

The Commission reminds Atmos Kentucky that the purpose of a rider tied to capital investment in the natural gas industry is to address specific problems such as bare steel or a section of pipe prone to issues and may be tied to specific directives issued by Pipeline and Hazardous Materials Safety Administration. The Commission also notes that in its application, Atmos Kentucky stated the PRP allows the Company to extend the period between base rate cases yet Atmos has filed 6 rate cases since the PRP was implemented in 2011.[245] Not including certain projects in the PRP nor capping the PRP has not slowed down Atmos's capital investment, as evident in the increase in Atmos Kentucky's rate base of $180.645 million in for the base period ending 2009 when the PRP was first approved[246] to $568.506 million, an almost 215 percent increase, or an average of 14 percent annually over the last 15 years. Of course, this increase in rate base requires higher rates that reflect a return of and on the investment. Essentially, Atmos Kentucky has more than doubled the amount of money it makes from Kentuckians in less than 15 years.

The Commission approves the roll-in of the PRP into base rates in this preceding. However, the Commission instructs Atmos Kentucky to alter the PRP from a per meter

[245] Direct Testimony of Brannon C. Taylor (Taylor Testimony) at 7.

[246] Case No. 2009-000354, *Application of Atmos Energy Corporation for an Adjustment of Rates* (KY. PSC May 28, 2010), Volume 6, FR 10(10)(b)

charge to a volumetric charge moving forward. The Commission recognizes that capital spending is Atmos Kentucky's greatest expense and believes depicting the PRP and its associated spending as a separate line item on customer bills allows for greater transparency. Therefore, in Atmos Kentucky's next base rate case, Atmos Kentucky is to file testimony demonstrating why the rider should be rolled-in to base rates. The Commission also requests that Atmos Kentucky maintain distinct records where costs are delineated so that the percent resulting from rehabilitation to meet standards established by city and municipal governments and to work with local governments to lower these expenses.

<u>NOL ADIT</u>

Kollen argued that Atmos Energy's NOL position is reversing so it is no longer reasonable to assume that the PRP will generate incremental NOL ADIT to completely offset incremental liability ADIT.[247] Therefore, Kollen recommended modifying the PRP calculation to reflect that asset NOL ADIT is not generated incrementally by the PRP spend or require Atmos Kentucky to include the actual impacts on the NOL ADIT in the PRP.[248]

Atmos Kentucky argued that the amount of asset NOL ADIT included in rate base and the PRP Rider is appropriate and should not be adjusted and the PRP ADIT treatment is reasonable given base period results.[249]

[247] Kollen Testimony at 48.

[248] Kollen Testimony at 48-49.

[249] Rebuttal Testimony of Joel J. Multer at 10-11.

The Attorney General and Kollen's position is that Atmos Kentucky inappropriately offsets and reduces the incremental liability ADIT due to accelerated tax deprecation subtracted from rate base by the incremental asset NOL ADIT.[250]

The Commission agrees, in part, with Kollen's recommendations regarding the treatment of NOL ADIT in the PRP. Specifically, consistent with the Commission's determination above that the generation and utilization of NOL ADIT included in rate base for Kentucky should be based on Kentucky operations, the PRP calculation should only reflect an incremental increase in NOL ADIT if Atmos Kentucky is able to establish that its Kentucky operations and its PRP spend actually generated NOL ADIT during the relevant period. The Commission will not accept the imputation of NOL ADIT where none was generated by Kentucky operations in the PRP period, because it would be inconsistent with ratemaking principles and federal normalization rules.[251] However, Atmos Kentucky's current tariff requires the PRP Revenue Requirement to be calculated using the "PRP-related Plant In-Service not included in base gas rates minus the associated PRP-related accumulated depreciation and accumulated deferred income taxes,"[252] which would not require the Commission to impute NOL ADIT where none

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[250] Attorney General's Brief at 40.

[251] *See Matter of Missouri-American Water Company*, 637 S.W.3d 121, 127-8 (MP App. 2021)(The court rejected Missouri-American Water Company's calculation of NOL ADIT in a pipeline replacement rider based solely on a comparison of the ADIT generated from the pipeline replacement spend and the gross income from the pipeline replacement rider; noted that a pipeline replacement program would always generate NOL ADIT using that method; and found that the calculation of the NOL ADIT generated should be based on the gross income from all operations in the state during the relevant period); *see also* Private Letter Ruling 113227-19, 2020 WL 1071276 (issued Dec. 3, 2019) (finding, among other things, that book-tax timing differences arising from repairs, which now make up the bulk of the book-tax timing differences in Atmos's PRP, are not subject to normalization rules); 26 C.F.R. § 1.167(l)-1(h)(1)(i) (requiring a utility's reserve for deferred taxes to reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of accelerated depreciation).

[252] Application, Attachment 1, PSC KY. No. 2, Fourth Revised SHEET No. 38.

exists.[253] Thus, the Commission finds that it is not necessary to amend the language of the PRP tariff and the specific calculation of NOL ADIT in the PRP, if any, will be addressed in future PRP cases.

TARIFF ISSUES

Weather Normalization Adjustment

Atmos Kentucky proposed to update the period used to weather normalize revenues for the weather normalization adjustment (WNA) rider to the 20-year period ending March 2021. The WNA Rider is only used during the billing months of November-April 30. The Commission finds this update to be reasonable.

Performance Based Rate Mechanism

Atmos Kentucky proposed to remove the experimental designation from its Performance Based Rate Mechanism Tariff as the Commission had already approved the removal of the designation in Case No. 2015-00298.[254] As the Commission has already approved the revision, the Commission finds that the removal of the experimental designation from the Performance Based Rate Mechanism is reasonable and should be approved.

Tax Act Adjustment Factor

Atmos Kentucky proposed to establish a new Tax Act Adjustment Factor tariff to implement the effects of future changes of federal and state income taxes on the most recently approved base rates. The factor under the proposed tariff would be the

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[253] *See Matter of Missouri-American Water Company*, 637 S.W.3d at 127-8 (interpreting a statutory pipeline replacement mechanism that used similar language regarding the use of ADIT to calculate the revenue requirement and finding that it did not permit the imputation of NOL ADIT that did not exist).

[254] Case No. 2015-00298, *Request of Atmos Energy Corporation for Modification and Extension of its Gas Cost Adjustment Performance Based Ratemaking Mechanism* (Ky. PSC Mar. 31, 2016).

difference between the income tax expense included in the revenue requirement from Atmos Kentucky's most recent base rate proceeding and the calculated income tax expense if the change of the federal or state income tax rate had been in effect during the test year after applying the gross conversion factor.[255] The Attorney General recommended that the Commission reject the proposed rider as it is not necessary as the Commission already has the capability to address changes in the federal and state tax codes.[256] Atmos Kentucky argued that the proposed rider is not necessary because it is the only way to address future changes, but because it is the most efficient way.[257] Atmos Kentucky also argued that the Commission can still undertake its own analysis and require additional filings if the rider is approved and that it would save the Commission the need of conducting a proceeding in case of non-controversial tax changes.[258] As the Attorney General argued, there are already multiple processes in place at the Commission's and Atmos Kentucky's disposal to address changes in the federal and state tax codes. Therefore, the Commission finds that the proposed Tax Act Adjustment Factor Rider is unreasonable and should not be approved.

Parking Service.

Atmos Kentucky proposed to remove references to parking service from its tariff and that transportation accounts be fully cashed out for any remaining positive imbalance for the month. Atmos Kentucky claimed that its upstream pipelines do not currently offer

[255] Direct Testimony of Brannon C. Taylor (Taylor Testimony), page 23, lines 14–18.

[256] Kollen Testimony, page 50, lines 8–15.

[257] Rebuttal Testimony of Joel J. Multer, page 12, lines 1–5.

[258] Rebuttal Testimony of Joel J. Multer, page 12, lines 10–19.

parking service[259] and that parking creates an opportunity for transportation customers and their marketers to attempt to engage in price arbitrage in times of rising natural gas prices by intentionally over nominating and over purchasing natural gas for that current month, knowing that 10 percent would be parked to the next month, thus avoiding purchasing natural gas that next month when prices are expected to be higher.[260] Atmos Kentucky indicated that with parking service removed, transportation customer behavior will change such that they will begin proactively resolving more of their daily and monthly imbalances and rely less on Atmos Kentucky's system balancing.[261] Atmos Kentucky claimed that there is no impact on its physical distribution system as a result of parked volumes as it ensures supply to its distribution system is balanced with customer requirements regardless of any volumes parked by transportation customers.[262] As there is no requirement that Atmos Kentucky provide parking service, the Commission finds that Atmos Kentucky's proposal to remove parking service references from its tariff and that transportation accounts be fully cashed out for any remaining positive imbalance for the month is reasonable and should be approved.

<u>Natural Gas Weekly Pricing Index</u>.

Atmos Kentucky proposed to replace references to the Natural Gas Weekly pricing index with the Gas Daily pricing index for imbalance pricing calculations, citing a substantial increase in the subscription price for Natural Gas Weekly and the publisher's

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[259] Taylor Testimony, page 19, lines 8–9.

[260] Atmos Kentucky's response to Commission Staff's Second Request, Item 9(a)

[261] Atmos Kentucky's response to Commission Staff's Second Request, Item 9(d).

[262] Atmos Kentucky's response to Commission Staff's Second Request for Information, Item 8(c).

warnings of general copyright infringement concerns.[263] Atmos Kentucky already subscribes to Platt's Gas Daily publication and has the rights to utilize it in its calculations.[264] Atmos Kentucky also indicated that the change from using Natural Gas Weekly to using Gas Daily would have had no impact on the volumetric imbalance calculations for the past three calendar years and 2021 to date.[265] Atmos Kentucky also claimed that the proposal would have no direct impact on the Atmos Kentucky's Gas Cost Adjustment (GCA).[266] As the proposed revision would have had no impact on imbalance calculation and no direct impact to Atmos Kentucky's GCA, the Commission finds that Atmos Kentucky's proposal to replace references to the Natural Gas Weekly pricing index with the Gas Daily pricing index for imbalance pricing calculations is reasonable and should be approved.

Priorities of Curtailment

Atmos Kentucky proposed to revise the priorities of curtailment in its tariff. The current priorities require Atmos Kentucky to distinguish between certain customers based on their usage in mcf/day, which Atmos Kentucky claimed is a difficult standard to apply in real time in the event of a curtailment situation.[267] In addition, customers under the same rate schedule could be treated different under the current priorities.[268] Atmos Kentucky cited an example of two Rate G-1 customers, one burning 100 mcf/day and one

[263] Taylor Testimony, page 20, lines 9–10.

[264] Taylor Testimony, page 20, lines 16–19.

[265] Atmos Kentucky's response to Commission Staff's Second Request, Item 10(a).

[266] Atmos Kentucky's response to Commission Staff's Second Request, Item 10(c).

[267] Taylor Testimony, page 21, lines 4–6.

[268] Taylor Testimony, page 21, lines 11–13.

burning 49 mcf per day. Under the current curtailment priorities, the customer using 100 mcf/day would be instructed to go to zero before the smaller customer was affected.[269] Atmos Kentucky stated that the new curtailment priorities would operate strictly upon customer class so that customers served under the same class would not be treated differently.[270] The revisions would (1) combine all commercial service under Rate G-2 into Priority Level 2; (2) combine industrial service under Rates G-1 and T-4 to new Priority Level 3; (3) combine service under Rate G-2 and T-3, both interruptible, to new Priority Level 4; and (4) make flex sales transactions new Priority Level 5.[271] The Commission finds that the revisions to the curtailment priorities are reasonable and should be approved as customers under the same rate schedule should not be treated differently when it comes to curtailing service.

Operational Flow Orders.

Atmos Kentucky proposed to add language to its tariff regarding the ability to issue operational flow orders (OFO) to transportation customers and their marketers. The new provisions would require actions by Rate T-3 and T-4 customers to alleviate conditions that, in Atmos Kentucky's judgement, would jeopardize the operational integrity of Atmos Kentucky's system.[272] The proposal would also allow Atmos Kentucky to issue an OFO to an individual customer or marketer using transportation service without issuing an OFO to all transportation customers.[273] Atmos Kentucky explained that its current tariffs

[269] Taylor Testimony, page 21, lines 7–13.

[270] Taylor Testimony, page 21, lines 6–7.

[271] Taylor Testimony, page 15, lines 14–19.

[272] Taylor Testimony, page 16, lines 2–6.

[273] Taylor Testimony, page 22, lines 7–8.

contain a provision that authorizes curtailing transportation services when Atmos Kentucky is unable to confirm the customer's gas supply is actually being delivered to the system and that it has issued one such restriction over the last four calendar years.[274] Atmos Kentucky explained that it proposed the clarifying language to better describe the restriction as an Operational Flow Order, which is consistent with general pipeline practice and familiar to gas marketers.[275] Given the important purpose operational flow orders serve, the Commission finds that Atmos Kentucky's proposed revisions to its tariff regarding the ability to issue OFOs to transportation customers and their marketers is reasonable and should be approved.

<u>Nonrecurring Charges</u>.

In Case No. 2020-00141,[276] the Commission found that the calculation of nonrecurring charges should be revised because only the marginal costs related to the service should be recovered through special nonrecurring charges for service provided during normal working hours. In reaching that decision, the Commission found that personnel are paid for work during normal business hours regardless of whether they are on a field visit or not, and therefore labor costs included in nonrecurring charges that occur during regular business hours should be eliminated. By reflecting only the marginal cost of the service in nonrecurring charges, Atmos Kentucky's rates will be more in line with the principle of cost causation. Merely allocating a fixed expense of ordinary labor costs in special nonrecurring charges like reconnect and returned check charges creates

[274] Atmos Kentucky's response to Commission Staff's Second Request, Item 11(a).

[275] Atmos Kentucky's response to Commission Staff's Second Request, Item 11(b).

[276] Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020).

a mismatch between how Atmos Kentucky incurs expenses and how it recovers those expenses from customers. Instead of reflecting fixed costs in special nonrecurring charges that a utility incurs regardless of the number or timing of those nonrecurring services, including those fixed costs in rates for gas service more closely aligns those expenses with the actions that drive them. This approach to ratemaking is entirely consistent with the Commission's history of ensuring that rates reflect, to a reasonable degree, the principle of cost causation while simultaneously taking into account the health of the utility and the ability of the utility to provide the adequate, efficient and reasonable provision of service.

As demonstrated by the evidence of record, Atmos Kentucky relies on employee labor to perform its nonrecurring services.[277] Atmos Kentucky indicated that it would consider eliminating nonrecurring charges altogether and to recover the related revenue through base rates.[278] However, there are customer specific costs recovered through nonrecurring charges and the Commission believes that those costs are better recovered from the customers causing such costs. Based on the information above and using the cost support provided in this proceeding, the Commission finds that the following revisions should be made to Atmos Kentucky's nonrecurring charges.

	Current Charge	Revised Charge
Meter Set (Regular Hours)	$34.00	$3.00
Turn-On (Regular Hours)	23.00	3.00
Read (Regular Hours)	12.00	3.00
Reconnect Delinquent Service (Regular Hours)	39.00	3.00
Seasonal Charge (Regular Hours)	65.00	3.00

[277] Atmos Kentucky's response to Commission Staff's Third Request for Information (filed Sep. 16, 2021) (, Item 11(a).

[278] Atmos Kentucky's response to Commission Staff's Sixth Request for Information (filed Jan. 6, 2022), Item 3.

Returned Check Charge.

Atmos Kentucky charges a returned check charge of $25.00 when a payment is not honored by a customer's financial institution. As cost support for the charge, Atmos Kentucky initially provided a survey of returned check charges assessed by five banks that showed an average returned check charge of $35.60.[279] Atmos Kentucky later provided information indicating that it only deposited customer payments at one of the banks included in the survey.[280] Atmos Kentucky indicated that the other bank in which customer payments are deposited does not charge Atmos Kentucky for returned payments.[281] Finally, when asked to provide the amount Atmos Kentucky was charged by its banks for returned payments for calendar years 2016 through 2021, the information Atmos Kentucky provided showed that the average bank fee per returned payment was $3.30 for 2020 and 2021.[282] As a nonrecurring charge is only supposed to recover the costs of performing the service, the Commission finds that Atmos Kentucky's returned check charge should be reduced to $4.00.

Seasonal Charge.

Atmos Kentucky's cost justification for its after-hours seasonal charge indicated that the total cost to perform an after-hours seasonal reconnect was $59.97 while its

[279] Atmos Kentucky's response to Commission Staff's Third Request for Information (filed Sept. 16, 2021), Item 3, Attachment 1.

[280] Atmos Kentucky's response to Commission Staff's Fourth Request for Information (filed Nov. 24, 2021), Item 2.

[281] Atmos Kentucky's response to Commission Staff's Fifth Request for Information (filed Dec. 3, 2021), Item 4(a).

[282] Atmos Kentucky's response to Commission Staff's Seventh Request for Information (filed Feb. 2, 2022), Item 5.

tariffed rate for that service is $73.00.[283] In regards to the tariffed seasonal charge being more than the cost to perform the service, Atmos Kentucky argued that customers who terminate their service in early spring and reconnect in late fall avoid paying four to five months of the tariffed customer charge.[284] Atmos Kentucky also argued that the higher charge provided a level of deterrence to customers that drive costs through voluntary actions.[285]

Regarding nonrecurring charges, 807 KAR 5:006, Section 9(2) states "[a] charge shall relate directly to the service performed or action taken and shall yield only enough revenue to pay the expenses incurred in rendering the service." The regulation is clear that nonrecurring charges must be cost-based. There is nothing in the regulations allowing for a nonrecurring charge to exceed the expenses incurred in rendering the service in order to disincentivize customer conduct. Therefore, the Commission finds that Atmos Kentucky's after-hours seasonal charge should be reduced to $60 to only recover the cost of performing the service. No adjustment is necessary to nonrecurring charge revenue as a result of this change as there were no instances of this charge being assessed during the period used to forecast such revenues.

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[283] Atmos Kentucky's response to Commission Staff's Fifth Request for Information (filed Dec. 3, 2021), Item 3, Attachment 1, page 1 of 7.

[284] Atmos Kentucky's response to Commission Staff's Fourth Request for Information (filed Nov. 24, 2021), Item 1(d).

[285] Atmos Kentucky's response to Commission Staff's Fourth Request for Information (filed Nov. 24, 2021), Item 1(d).

Late Payment Charge.

Evidence collected in Case No. 2020-00085[286] challenged the efficiency of late payment charges to certain customers. Therefore, the Commission has recently reviewed utilities' late payment charges during rate cases. The information provided by Atmos Kentucky in Case No. 2020-00085 showed that the on-time pay percentage for residential customers actually increased while the late payment moratorium was in effect.[287]

Atmos Kentucky argued that its late payment charge is authorized under 807 KAR 5:006, Section 9(3)(h), that it is included in its tariff to encourage the customer to pay promptly, and that it is not based on an underlying cost.[288] Atmos Kentucky also indicated that it would consider eliminating late fees from its tariff altogether and recover the revenue through base rates.[289]

As the evidence indicates, the late payment charge does not appear to have the intended impact on residential customers' behavior. Given that, and the fact that Atmos Kentucky has suggested eliminating late payment fees altogether, the Commission finds that the residential late payment fee should be discontinued. Therefore, the Commission

[286] Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19.*

[287] See No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19,* Atmos's response to Commission Staff's First Request for Information (filed Jul. 17, 2020), Item 9 and Atmos's response to Commission Staff's Second Request for Information (filed Jan. 14, 2021), Item 1.

[288] Atmos Kentucky's response to Commission Staff's Third Request for Information (filed Sept. 16, 2021), Item 11(b).

[289] Atmos Kentucky's response to Commission Staff's Sixth Request for Information (filed Jan. 6, 2022), Item 3.

reduces the test year late payment charge revenue by $0.874 million, which is the amount attributable to residential customers.

Temporary Turn-Off Charge.

Atmos Kentucky has been charging a fee when customers request that their gas service be turned off temporarily to accommodate temporary construction at their premises.[290] The amount of the charge is $20 for business hours and $25 for after normal business hours.[291] This charge has not been included in Atmos Kentucky's tariff. Atmos Kentucky indicated that if the Commission found that the charge should be included in the tariff, it would just stop charging customers for temporary off situations since they are infrequent and not causing a significant amount of costs.[292]

The Commission finds that this charge would meet the definition of a nonrecurring charge found in 807 KAR 5:006, Section 1(6), which defines a nonrecurring charge as:

> a charge or fee assessed to a customer to recover the specific cost of an activity, which:
> (a) Is due to a specific request for a certain type of service activity for which, once the activity is completed, additional charges are not incurred; and
> (b) Is limited to only recover the specific cost of the specific service.

Commission regulation 807 KAR 5:006, Section 9(2), requires nonrecurring charges to be included in a utility's tariff. Therefore, the Commission finds that if Atmos Kentucky is going to charge a temporary turn-off charge, it should be included in the tariff. However,

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[290] Atmos Kentucky's response to Commission Staff's Fifth Request for Information (filed Dec. 3, 2021), Item 1(a).

[291] Atmos Kentucky's response to Commission Staff's Fifth Request for Information (filed Dec. 3, 2021), Item 1(a).

[292] Atmos Kentucky's response to Commission Staff's Fifth Request for Information (filed Dec. 3, 2021), Item 1(b).

given that Atmos Kentucky has indicated that it will just stop charging the temporary turn-off charge if the Commission found it had to be included in the tariff, the Commission finds that Atmos Kentucky should stop charging the temporary turn-off charge.

KRS 278.160(2) states that "[n]o utility shall charge, demand, collect or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules, and no person shall receive any service from any utility for a compensation greater or less than that prescribed in such schedules." In addition, 807 KAR 5:006, Section 9(2), requires that any nonrecurring, customer specific charge must be included in the tariff. As Atmos Kentucky's tariff does not currently include the temporary turn-off charge, Atmos Kentucky appears to be in violation of KRS 278.160(2) and 807 KAR 5:006, Section 9(2). The Commission will open a separate proceeding to investigate Atmos Kentucky's alleged violation of KRS 278.160(2) and 807 KAR 5:006, Section 9(2).

IT IS THEREFORE ORDERED that:

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

2. The rates and charges as set forth in Appendix B to this Order are approved as fair, just and reasonable rates for Atmos Kentucky, and these rates and charges are approved for service on and after May 20, 2022.

3. Atmos Kentucky's proposal to remove the experimental designation from its Performance Based Rate Mechanism is approved.

4. Atmos Kentucky's proposed Tax Act Adjustment Factor Rider is denied.

5. Atmos Kentucky's proposal to remove parking service references from its tariff and that transportation accounts be fully cashed out for any remaining positive imbalance for the month is approved.

6. Atmos Kentucky's proposal to replace references to the Natural Gas Weekly pricing index with the Gas Daily pricing index for imbalance pricing calculations is approved.

7. Atmos Kentucky's proposal to revise its curtailment priorities is approved.

8. Atmos Kentucky's proposal to revise its tariff to allow it the ability to issues OFOs to transportation customers and their marketers is approved.

9. Atmos Kentucky's Meter Set Charge (Regular Hours) shall be reduced to $3.00.

10. Atmos Kentucky's Turn-On Charge (Regular Hours) shall be reduced to $3.00.

11. Atmos Kentucky's Read Charge (Regular Hours) shall be reduced to $3.00.

12. Atmos Kentucky's Reconnect Delinquent Service Charge (Regular Hours) shall be reduced to $3.00.

13. Atmos Kentucky's Seasonal Charge (Regular Hours) shall be reduced to $3.00.

14. Atmos Kentucky's Returned Check Charge shall be reduced to $4.00.

15. Atmos Kentucky's Seasonal Charge (After Hours) shall be reduced to $60.00.

16. Atmos Kentucky shall cease charging its residential late payment fee.

17. Atmos Kentucky shall cease charging its Temporary Turn-On Charge.

18. The Demand-Side Management (DSM) Lost Sales Adjustment component of Atmos Kentucky's DSM cost-recovery mechanism shall be reset to zero.

19. Within 20 days of the date of this Order, Atmos Kentucky shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.

20. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION

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Chairman

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Vice Chairman

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Commissioner

ENTERED
MAY 19 2022 bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

____
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00214 DATED MAY 19 2022

Atmos Energy Corporation - Kentucky Division
Case No. 2021-00214
Test Year Ended December 31, 2022
$ Millions

Atmos Requested Base Revenue Increase		
Atmos Requested Base Rate Increase	$	16.390
Atmos Revision in Calculated Base Revenue Deficiency		(1.338)
Atmos Revised Base Rate Revenue Deficiency	$	15.052
Rate Base Adjustments		
Include SSU Division 002 T-Lock Adjustment-Unrealized Gains Liability ADIT		(0.313)
Remove Other SSU Division 002 ADIT		(0.118)
Remove Accounts Payable - Construction		(0.501)
Remove Regulatory Asset for Rate Case Expenses		(0.035)
Reflect Effects from Amortization of Unprotected EDIT Over Three Years		0.166
Adjust CWC to Remove Non-Cash Items		(0.612)
Operating Income Adjustments		
Reduce Outside Services Expense Allocated from KY/Mid States Division		(0.405)
Amortize Unprotected EDIT Over Three Years Instead of Five Years		(3.460)
Amortize Remaining Rate Case Expense from Case 2018-00281 Over Three Years		(0.011)
Remove Social Organization/Service Club Dues		(0.164)
Reduce Misc. Service Revenues to Remove Labor from Charges		0.126
Reduce Misc. Service Revenues to Remove Residential Late Payment Fees		0.874
Reduce Misc. Service Revenues to Reduce Commercial and Public Authority Late Payment Fees		0.123
Rate of Return Adjustments		
Reflect Changes in Capital Structure		(2.041)
Adjust STD and LDT Rates		0.229
Reduce Return on Equity		(4.653)
Total Adjustments	$	(10.796)
Base Rate Increase before Amortization of Regulatory Liabilities	$	4.256
Less: Temporary Reduction Due to Amortization of COS and Depreciation Regulatory Liabilities	$	(1.644)
Net Increase in First Year	$	2.613

* Temporary reductions will continue until COS and depreciation reserve regulatory liabilities are fully amortized.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00214 DATED MAY 19 2022

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
$66.00	per meter per month for non-residential service

Distribution Charge

First	300	Mcf	$ 1.5483 per Mcf
Next	14, 700	Mcf	$ 1.0762 per Mcf
Over	15, 000	Mcf	$ 0.8888 per Mcf

RATE G-2
INTERRUPTIBLE SALES SERVICE

Base Charge

$520.00	per delivery point per month

Distribution Charge

First	15, 000	Mcf	$ 0.9557 per Mcf
Over	15, 000	Mcf	$ 0.7837 per Mcf

RATE T-3
INTERRUPTIBLE TRANSPORTATION SERVICE

Base Charge

$520.00 per delivery point per month

Distribution Charge for Interruptible Service

First	15, 000 Mcf	$ 0.9557 per Mcf
Over	15, 000 Mcf	$ 0.7837 per Mcf

RATE T-4
FIRM TRANSPORTATON SERVICE

Base Charge

$520.00 per delivery point per month

Distribution Charge for Firm Service

First	300 Mcf	$ 1.5483 per Mcf
Next	14, 700 Mcf	$ 1.0762 per Mcf
Over	15, 000 Mcf	$ 0.8888 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

Nonrecurring Charges

Meter Set (Regular Hours)	$3.00
Meter Set (After Hours)	$44.00
Turn-On (Regular Hours)	$3.00
Turn-On (After Hours)	$28.00
Read (Regular Hours)	$3.00
Read (After Hours)	$14.00
Reconnect Delinquent Service (Regular Hours)	$3.00
Reconnect Delinquent Service (After Hours)	$47.00
Seasonal Charge (Regular Hours)	$3.00
Seasonal Charge (After Hours)	$60.00
Meter Test Charge	$20.00
Returned Check Charge	$4.00
Late Payment Fee (G-1 Residential)	0%
Late Payment Fee (G-1 Commercial and Public Authority)	5%
Optional Facilities Charge for Electronic Flow Measurement Equipment	
Class 1 EFM equipment (<$7,500, including installation costs)	$75.00 per month
Class 2 EFM equipment (>$7,500, including installation costs)	$175.00 per month

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LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NUMBER U-36658

ATMOS ENERGY CORPORATION, EX PARTE.

Docket No. U-36658, In re: Application for renewal of Rate Stabilization Clause Rider. (Motion Granted to Consolidate U-35937 and U-36658 - Keeping Docket U-36658)

(Decided at the April 19, 2024 Business and Executive Session.)

ORDER

I. OVERVIEW AND PROCEDURAL HISTORY

On March 30, 2021, Louisiana Public Service Commission ("LPSC" or "Commission") Staff initiated a Prudence Investigation of Atmos Energy Corporation's ("Atmos") System Integrity Improvement Program ("SIIP"), including an Analysis of Reasonable Cost Recovery Mechanism at the directive of then Chairman Greene ("SIIP Investigation"). This investigation was assigned the Docket No. X-35937. This matter was published in the Commission's Official Bulletin No. 1242 dated April 1, 2021. As this was an informational filing, no interventions were received.

On March 22, 2023, LPSC Staff filed Staff's Report and Recommendation prepared by Henderson Ridge Consulting, Inc. in Docket No. X-35937. On May 5, 2023, Atmos filed a "Reservation of Right to an Evidentiary Hearing on behalf of Atmos Energy Corporation" objecting to the recommendations in that report and reserving the right to request formal hearing procedures. This matter was converted from a X-docket to a U-docket, and republished in the Commission's Official Bulletin No. 1295 dated April 14, 2023, with a 25-day intervention period. No interventions were received. This matter was assigned to Administrative Law Judge ("ALJ") Joy Guillot, and a status conference was held for May 24, 2023. At this status conference a procedural schedule was set.

Atmos filed the Pre-filed Direct Testimonies of Don Erickson, Joe Christian, Eric Singletary, and DeWitt Burdeaux on October 2, 2023. Per the procedural schedule for the Prudence Investigation, Staff filed the Direct Testimony of William J. Barta on December 20, 2023. Atmos filed the Rebuttal Testimonies of Don Erickson, Joe Christian, Eric Singletary, and DeWitt Burdeaux on February 19, 2024.

On January 31, 2023, Atmos filed an Application for Renewal of Rate Stabilization Clause ("Application") and the Direct Testimonies of Joe T. Christian, Don A. Erickson, and Matthew R.

Howard. This Application was assigned the Docket No. U-36658. This matter was published in the Commission's Official Bulletin No. 1290 dated February 3, 2023, with a 25-day intervention period. No interventions were received. This matter was assigned to ALJ Guillot, and a status conference was held on April 18, 2023. At this status conference a procedural schedule was set.

Per the procedural schedule set for the Application, LPSC Staff filed the Direct Testimonies of Paul Thomas Chastant III and William J. Barta on July 21, 2023. Atmos Energy filed the Rebuttal Testimonies of Joe T. Christian, Don A. Erickson, and Matthew R. Howard on September 25, 2023.

On December 7, 2023, Atmos and Staff filed a Joint Motion to Consolidate the two dockets, U-36658 and U-35937. This motion was granted by ALJ Guillot on the same date. The two dockets were consolidated into LPSC Docket No. U-36658. A Status Conference was held on December 19, 2023 in which the parties agreed to a new procedural schedule.

After extensive analysis, discovery and negotiations, Atmos and Staff were able to reach an Uncontested Stipulated Settlement. On April 18, 2024, a *Joint Motion for Consideration of Proposed Uncontested Stipulated Settlement by the Commission Pursuant to Rule 57* ("Joint Motion") was filed.

II. COMMISSION AUTHORITY

The Commission exercises jurisdiction over public utilities and common carriers in Louisiana pursuant 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."

III. UNCONTESTED STIPULATED SETTLEMENT

On April 18, 2024, Atmos and Commission Staff filed the Joint Motion. In this motion, the Parties included the Uncontested Stipulated Settlement. This Settlement resolved all issues in this proceeding. The terms of the Uncontested Stipulated Settlement are:

1. The Parties agree that Atmos Energy shall be authorized a three-year RSC for Test Years ending December 31, 2023, 2024, and 2025. The proposed RSC is attached hereto as Exhibit 1.

2. Atmos Energy's RSC revenue requirement shall be based on a Return on Equity of 9.8% midpoint with an earnings bandwidth of 20 basis points above and below the midpoint of 9.8%, with an annual reset to the midpoint if earnings fall below 9.60% or above 10.00%.

3. Atmos Energy's rates under the three-year RSC shall be based on the Company's actual capital structure as of December 31st, with a cap on its common equity of 58%.

4. The O&M Benchmark established in Order No. U-35122 shall remain in place under the same terms and conditions set forth in Order No. U-35122.

5. Atmos Energy's extraordinary cost provision within its RSC shall not be triggered unless the Company has had a single incident with a revenue requirement of $5 million or more.

6. Atmos Energy shall adhere to the following parameters for its SIIP program:

   a. Atmos Energy shall not recover more than $322 million from its ratepayers through the SIIP, RSC, or any other recovery method over the three-year term of the RSC for projects under the SIIP program defined as Category 1- Risk based Specific Safety Projects. Category 1 projects address safety hazards and Pipeline and Hazardous Materials Safety Administration ("PHMSA") requirements through pre-planned projects to eliminate PHMSA-identified risks that exist on Atmos Energy's system.

   b. There is no cap on Atmos Energy's ability to recover costs associated with replacement projects under the SIIP program defined as Category 2-Functional Safety Projects & Work. Category 2 address imminent safety hazards and PHMSA requirements through programmatic activities such as leak repair, meter loop replacement, etc. identified during the course of Atmos' normal activities. Category 2 includes functional, programmatic spending only and cannot include specific, pre-planned projects that are properly included in Category 1.

      i. For SIIP projects that meet the Category 2 definition, Atmos Energy shall provide documentation in the reports described in Paragraph 7 sufficient to demonstrate that the project(s) addressing imminent safety hazards and PHMSA requirements through programmatic activities such as leak repair, meter loop replacement, etc.

   c. There is no cap on investments for facility relocations required by federal, state, or local government projects.

      i. For SIIP projects that meet the definition of relocation required by governmental entities, Atmos Energy shall provide documentation in the reports described in Paragraph 7 sufficient to demonstrate that the project(s) relocations were required by federal, state, or local government projects.

7. Beginning in 2024, and in 2025 and 2026, Atmos Energy shall submit to the Commission a report listing the proposed SIIP projects for the calendar year (within the context of the total capital budget for the year). The list shall include detailed information regarding the safety need for each project and the budget for each project. Atmos Energy shall also file a variance report for the prior year showing the actual costs of the projects compared to the projected budget and an explanation of any variance greater than 10%, or $20,000, whichever is lower.

   a. The report for proposed projects for the current calendar year shall be filed by June 15 of the calendar year (e.g., proposed 2024 projects filed by June 15, 2024). Beginning in 2025, the variance report on the previous year's projects shall be filed by March 31 (e.g., 2024 project variances filed by March 31, 2025). In 2024, the variance report for 2023 expenditures will compare actual expenditures to the capital budget information provided with RSC Annual Report filed in 2023. Such report shall be addressed to the Executive Secretary of the Commission, who will then open a repository docket for all reports. Atmos Energy's reports on its SIIP program shall in no way be taken as the Commission's approval of any SIIP projects included within the report, nor that the Commission has deemed any project included within the report as prudent.

8. Based on Atmos Energy's and Staff's (collectively the "Parties") independent evaluation of litigation risks, promotion of administrative efficiencies, conservation of public resources by eliminating controversy, and recognition that such controversies are better addressed in a Commission rulemaking, the Parties agree to resolve these consolidated dockets with the reservation that both Parties are not relinquishing their respective positions, rights, and claims as applicable law may afford. Nothing herein shall prevent Atmos Energy or Staff from taking a position in the future regarding the appropriate scope of review in Test Years under a jurisdictional utility's RSC. The Parties further agree that these consolidated dockets can now be closed and acknowledge that Staff has made no recommendations or determination regarding the prudence of any SIIP projects or costs to date, and that the Commission reserves its authority to conduct a prudence examination as to any of the SIIP projects, including the decision to construct, the authority to determine whether the projects were properly managed, whether it was prudent to continue with any SIIP project from commencement to completion and whether those projects were constructed in the most cost-effective manner.

9. The Parties acknowledge and agree that each enters into the Stipulated Settlement Term Sheet in reliance upon the representations contained herein, which are a part of the consideration hereof.

10. This Stipulated Settlement Term Sheet is the jointly drafted product of arms-length negotiations between the Parties with the benefit of advice from legal counsel.

11. Except as expressly stated herein, this Stipulated Settlement has no precedential effect in any other proceeding and will be without prejudice to the right of any party to take any position in future proceedings. The terms of this Stipulation may not be used either as an admission of any sort or as evidence in any proceeding whatsoever, except to approve or enforce the terms of this Stipulation. All oral or written statements made during the course of settlement negotiations are governed by Louisiana Code of Evidence Article 408.

12. This Stipulated Settlement Term Sheet will be effective upon approval by the Louisiana Public Service Commission.

[This section is intentionally left blank.]

IV. COMMISSION CONSIDERATION

On motion of Commissioner Skrmetta, seconded by Commissioner Greene, and unanimously adopted, the Commission voted to assert its original and primary jurisdiction and take the matter up pursuant to Rule 57.

After discussion, on motion of Commissioner Skrmetta, seconded by Commissioner Greene, with Chairman Francis and Commissioner Campbell concurring, and Vice Chairman Lewis opposing, the Commission voted to accept the Uncontested Stipulated Settlement filed into the record on April 18, 2024. The motion passed 4:1.

IT IS THEREFORE ORDERED THAT:

1) The Uncontested Stipulated Settlement filed into the record on April 18, 2024 is accepted; and,
2) This order is effective immediately.

BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA
May 13, 2024

/S/ MIKE FRANCIS
DISTRICT IV
CHAIRMAN MIKE FRANCIS

OPPOSED
DISTRICT III
VICE CHAIRMAN DAVANTE LEWIS

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

/S/ ERIC F. SKRMETTA
DISTRICT I
COMMISSIONER ERIC F. SKRMETTA

/S/ CRAIG GREENE
DISTRICT II
COMMISSIONER CRAIG GREENE

BRANDON M. FREY
SECRETARY

BEFORE THE MISSISSIPPI PUBLIC SERVICE COMMISSION

ATMOS ENERGY CORPORATION **DOCKET NO. 2005-UN-503**
GC-123-0081-00

IN RE: STABLE/RATE ANNUAL EVALUATION FOR 12 MONTHS ENDING MARCH 31, 2024

ORDER APPROVING AND ADOPTING STIPULATION CONCERNING STABLE/RATE ANNUAL EVALUATION FOR THE 12 MONTHS ENDING MARCH 31, 2024

THIS CAUSE having come on for consideration in the above referenced matter by the Mississippi Public Service Commission ("Commission"), the Commission finds as follows:

1.

On July 1, 2024, Atmos Energy Corporation ("Atmos Energy" or the "Company") filed its Stable/Rate Annual Evaluation for the twelve (12) months ending March 31, 2024 ("July 2024 Stable Rate Filing").

2.

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

Pursuant to these discussions and the review and evaluation of Staff, the parties entered into a Stipulation which was filed with the Commission on October 24, 2024 (the "Stipulation"). A copy of the Stipulation is attached hereto as Exhibit "A".

3.

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.

4.

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 and results in the revenue adjustment of $3,800,265 resulting in a projected monthly impact to a typical residential customer of approximately $0.85. The revenue requirement shall be collected in the (12) months remaining in the rate effective period.

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, 2024, as amended by and subject to the provisions stated in the Stipulation with a resulting Stable Rate Factor of 2.48688, is hereby approved, with rates effective November 4, 2024.

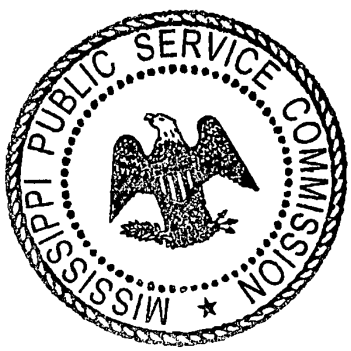
This Order shall be deemed issued on the day it is served upon the parties herein by the Executive Secretary of this Commission who shall note the service date in the file of this Docket.

Docket No. 2005-UN-503

COMMISSION VOTE

Chairman Chris Brown	Aye X	Nay ____
Commissioner De'Keither Stamps	Aye X	Nay ____
Commissioner Wayne Carr	Aye X	Nay ____

SO ORDERED, this the 4th day of November 2024.



MISSISSIPPI PUBLIC SERVICE COMMISSION

CHRIS BROWN, CHAIRMAN

DE'KEITHER STAMPS, COMMISSIONER

WAYNE CARR, COMMISSIONER

ATTEST: A TRUE COPY

KATHERINE COLLIER
EXECUTIVE SECRETARY

Effective this the 4th day of November 2024.

BEFORE THE MISSISSIPPI PUBLIC SERVICE COMMISSION

ATMOS ENERGY CORPORATION
GC123008100

DOCKET NO. 2005-UN-503

IN RE: STABLE RATE ANNUAL EVALUATION FOR TWELVE (12) MONTHS ENDING MARCH 31, 2024

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

This Joint Stipulation 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, 2024, Atmos Energy filed its Stable/Rate Annual Evaluation for the twelve (12) months ending March 31, 2024 ("July 2024 Stable Rate Filing").

2. On July 1, 2024, Atmos Energy also made its ninth annual filing pursuant to the System Integrity Rider ("SIR") ("July 2024 SIR Filing") with supporting schedules that reflect inputs filed contemporaneously in its 2024 Stable Rate Filing.

3. Atmos Energy's July 2024 Stable Rate Filing is summarized as follows:

Adjusted Rate Base	$637,964,489
Weighted Average Cost of Capital	8.30%
Revenue Adjustment	$16,243,920

4. The MPUS has completed its review of the Evaluation of the July 2024 Stable Rate Filing. The MPUS has had the benefit of full discovery as prescribed by Mississippi law and the 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

EXHIBIT "A"

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. The MPUS and Atmos Energy agree that the Company will realign to the 2024 SIR Filing the additional capital needs related to the System Integrity Program budget for fiscal year 2024 that was included in its 2024 Stable/Rate Adjustment ("SRA") filing.

b. For the purposes of this and the 2024 SIR Filing, the Company shall use a Weighted Average Cost of Capital of 7.80%. Nothing in this Stipulation is intended to suggest any agreement by the parties with regard to the return on equity, cost of debt, or capital structure utilized in the 2024 SIR and Stable Rate Filings to achieve the agreed to 7.80% Weighted Average Cost of Capital and the resulting customer rate impact.

c. Atmos Energy's adjusted rate base without SIR shall be modified from $637,964,489 to $592,235,623 to reflect the capitalized portion of certain Staff adjustments and the reallocation of incremental capital investment in the System Integrity Program for recovery from SRA to SIR for fiscal year 2024. This reflects a reduction in rate base of $45,728,866.

d. Atmos Energy's adjusted operation and maintenance ("O&M") expenses as amended are reduced by $1,743,791. The O&M expense adjustment includes reductions in compensation related expenses of $1,079,280 and $664,511 for other direct and allocated expenses adjusted by the MPUS.

e. Pursuant to and consistent with the contemporaneous Joint Stipulation between the Company and the Staff in Docket No. 2015-UN-049 (the "2024 SIR Stipulation"), this filing reflects a Weighted Average Cost of Capital of 7.80% instead of the 8.30% included in the July 2024 Stable Rate Filing.

f. In the November 29, 2023 Stipulation in Docket No. 2015-UN-049, the MPUS and Atmos Energy agreed that the Company will file a rate case with the Commission no later than April 1, 2025. In order to give the Company more time to prepare its rate case filing, the MPUS and Atmos Energy agree to modify the rate case filing deadline by one month, requiring Atmos Energy to file its rate case with the Commission no later than May 1, 2025.

g. The MPUS and Atmos Energy agree that the Company shall pay and collect through customer rates the cost of any and all consulting services hired by the MPUS and Atmos Energy in conjunction with the Company's forthcoming general rate case. This shall include consulting services utilized by the MPUS and the Company in the months preceding the May 1, 2025, rate case filing deadline.

6. Atmos Energy's 2024 Stable Rate Adjustment Evaluation with the adjustments stated above and agreed to by the Company and Staff, attached as Exhibit A, results in a Revenue Adjustment of $3,800,265, resulting in a projected monthly rate impact to a typical residential customer of approximately $0.85 when applied over a 12-month period.

7. Atmos Energy's 2024 Stable Rate Annual Evaluation includes an acceleration of the amortization of the unprotected portion of the excess deferred income tax liability established as part of the 2017 Tax Cut and Jobs Act ("TCJA"), and Staff agrees to this amortization, which is included in Exhibit A.

OTHER PROVISIONS

8. The MPUS and Atmos Energy understand and expressly agree that, except as previously stated, the stipulations made herein are for the purpose of this proceeding only and shall not apply to or be used as precedent in any other proceeding.

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 the 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 Joint Stipulation for which provision is made in this Joint Stipulation.

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

So stipulated, this the 24th day of October, 2024.

Docket No. 2005-UN-503

MISSISSIPPI PUBLIC UTILITIES STAFF

BY: Jim Beckett
Jim Beckett, Executive Director

ATMOS ENERGY CORPORATION

DocuSigned by:
BY: Wendy Collins
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Wendy Collins, Vice-President
Rates and Regulatory Affairs

Atmos Energy Corporation – Mississippi Division

July SRF – 2024

Line	Determination of Revenue Adjustment	Including SIR	Excluding SIR	Page/Line
A.	EXPECTED RETURN ON EQUITY (AFTER ADJ.)			21/20
B.	PERFORMANCE BASED BENCHMARK RETURN			22/4
C.	DIFFERENCE PBBR/ER			
D.	RATE BASE--EQUITY PORTION			22/5 * 5/21
E.	CHANGE IN EQUITY REV. FOR REQUIRED RETURN			
F.	TAX EXPANSION			44/11
G.	Amortization of Excess ADIT	(4,945,790)	(4,945,790)	60/6
H.	TOTAL REVENUE CHANGE REQUIRED	**3,814,475**	**3,800,265**	
	Minimum Threshold Test (+/-)	250,000	250,000	
I.	Revenue Change only if exceeds the Threshold	3,814,475	3,800,265	
J.	Revenue Change only if exceeds the Threshold with SIR Included	NA	3,800,265	

APPENDIX "C"
Page 1
CALCULATION OF REVENUE ADJUSTMENT

EXHIBIT "A"

Atmos Energy Corporation – Mississippi Division
DETERMINATION OF RATEBASE

(1) Line	(2) RATE BASE	(3) PER-BOOK EVALUATION 3/31/2024	(4) BEGINNING RATE PERIOD 10/31/2024	(5) ENDING RATE PEROID 10/31/2025	Page/Line
1	PLANT-IN-SERVICE +	770,020,392	795,563,584	832,721,754	6/9
2	GAS PLANT HELD FOR FUTURE USE	0	0	0	
3	GAS PLANT ACQUISITION ADJ.	1,208,363	1,208,363	1,208,363	6/15
4	NON-CURRENT GAS STORED	6,955,671	6,955,671	6,955,671	6/17
5	CONST. WORK-IN-PROGRESS +	39,246,379	39,246,379	39,246,379	6/25
6	LESS: ACCUM DEPRECIATION +	144,478,325	152,446,787	165,357,646	7/9
7	NET PLANT	672,952,481	690,527,211	714,774,522	
	PLUS:				
8	WORKING CAPITAL	8,830,519	8,830,519	8,830,519	20/H
8A	ENERGY DELIVERY PROGRAM	4,436,668	5,963,044	7,181,521	65/55, 65/56, 65/57
9	INVENTORY: MATERIAL & SUPPLIES	441,523	441,523	441,523	7/13
10	INVENTORY: GAS STORED UNDERGROUND	13,115,434	13,115,434	13,115,434	7/15
11	TOTAL INVENTORY	13,556,957	13,556,957	13,556,957	
12	PREPAYMENTS +	5,323,672	5,323,672	5,323,672	7/21
	LESS:				
13	DEFERRED INCOME TAX +	105,830,565	102,744,265	120,676,272	7/35
13A	REGULATORY LIABILITY - EDIT	11,235,077	8,358,672	3,412,883	62/6
14	CUSTOMER ADVANCES FOR CONST.	0	0	0	8/1
15	BAD DEBT RESERVE	0	0	0	
15A	INJURY AND DAMAGE RESERVE	434,418	434,418	434,418	8/7
15B	VACATION ACCRUALS +	535,490	535,490	535,490	8/12
15C	R & D SURCHARGE	391,514	391,514	391,514	8/14
16	UNFUNDED POST-RETIREMENT BENEFITS +	19,091,123	19,091,123	19,091,123	8/20
17	UNFUNDED PENSION LIABILITY	1,225,196	1,225,196	1,225,196	8/30
18	RATE BASE	566,356,916	591,420,726	603,900,297	
19	AVERAGE RATE BASE FOR PERIOD			597,660,512	
20	ADJUSTMENT FOR PRIOR ESTIMATION ERROR			(5,424,889)	19/7
21	ADJUSTED RATE BASE			592,235,623	
22	SIR RATE BASE			629,686,757	
23	RATE BASE WITH SIR			1,221,922,379	

** 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.

APPENDIX "A"
Page 1
CALCULATION OF EXPECTED RETURN

Atmos Energy Corporation -- Mississippi Division

DETERMINATION OF WORKING CAPITAL
12 Months Ending March 31, 2024

Line	(1) WORKING CAPITAL	(2) TEST PERIOD	(3) ADJUSTMENTS	(4) ADJUSTED TEST PERIOD	Page/Line
A.	OPERATING & MAINTENANCE EXPENSE	35,585,606	12,392,101	47,977,706	21/4
B.	RENT OF DIST. PROPERTY	12,504	0	12,504	21/5
C.	GENERAL TAXES	29,931,957	(7,278,012)	22,653,945	21/6
D.	MISC. INCOME DEDUCTIONS	0	0	0	21/7
E.	TOTAL OPERATING EXP.	65,530,067	5,114,089	70,644,155	
F.	NON-RECOVERABLE LOBBYING EXP.	0	0	0	
G.	ALLOWABLE O. & M.	65,530,067	5,114,089	70,644,155	
	TIMES 1/8 ALLOWANCE	12.50%	12.50%	12.50%	
H.	ALLOWED WORKING CAPITAL	8,191,258	639,261	8,830,519	

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

APPENDIX "A"
Page 2
CALCULATION OF EXPECTED RETURN

Adjustment to Rate Base Calculation

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

(1) Line	(2) ITEMS	(3) ACTUAL BEGINNING RATE BASE 10/31/2022	(4) ACTUAL ENDING RATE BASE 10/31/2023	
1	PLANT-IN-SERVICE +	1,110,873,430	1,218,885,859	
	less negotiated SR disallowances	(382,377)	(382,377)	
	less SIR exclusions	(380,836,509)	(468,065,581)	
2	LESS: ACCUM DEPRECIATION +	176,859,885	177,042,481	
	less SIR exclusions	(23,168,897)	(32,477,958)	
	NET PLANT	575,963,556	605,873,377	
	LESS:			
3	DEFERRED INCOME TAX +	82,823,721	94,413,742	
	EDIT less DTA grossup	18,692,611	13,289,651	
	less SIR exclusions	(6,423,198)	(8,495,758)	
4		480,870,421	506,665,742	
5	ACTUAL AVERAGE PLANT LESS ACCUM DEPREC & LESS DEFERRED INCOME TAX			$ 493,768,082
6	AVG PLANT, A/D & DEF INC TAX PROJECTED IN THE STABLE/RATE EVALUATION MADE TWO FILINGS PRIOR TO THE CURRENT FILING			499,192,971
7	RATE BASE ADJUSTMENT TO CURRENT EVALUATION			(5,424,889)

APPENDIX "A" Page 3
CALCULATION OF EXPECTED RETURN

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	Page/Line
1	OPERATING REVENUE	310,247,941	(55,892,030)	254,355,910	254,355,910	FERC ACCT. 400: 480-499	59/31, 24/7
2	LESS: GAS PURCHASED FOR RESALE	113,743,951	0	113,743,951	113,743,951	FERC ACCT. 401: 800-813 and 858	59/27
3	MARGIN	196,503,989	(55,892,030)	140,611,959	140,611,959	LINE 1 LESS LINE 2	
4	LESS: OPERATING & MAINTENANCE EXPENSE	35,585,606	12,392,101	47,977,706	47,977,706	APPENDIX "A", PAGE 5A	59/30, 24/22
5	RENT OF DIST. PROPERTY	12,504	0	12,504	12,504	FERC ACCT. 401:881	58/37
6	GENERAL TAXES	29,931,957	(7,278,012)	22,653,945	22,653,945	FERC ACCT 408.1	56/19, 24/34
7	MISC. INCOME DEDUCTIONS	0	0	0	0	FERC ACCT 426.1 Donations	
8	DEPRECIATION	30,491,078	(6,367,444)	24,123,634	24,123,634	FERC ACCT 403 & 404	56/15, 25/9
9	AMORT. OF GAS INVESTMENT	0	0	0	0	FERC ACCT 405	58/16, 25/13
10	AMORT. OF DEBT EXPENSE	(259,890)	0	(259,890)	(259,890)	FERC ACCT 428 & 428.1 (alloc)	23/1.31
11	ALLOW. FOR FUNDS USED DURING CONST	(2,830,488)	0	(2,830,488)	(2,830,488)	FERC ACCT 432 (+ alloc from SSU)	56/42, 25/22
11A	AMORT INVESTMENT TAX CREDIT	0	0	0	0	FERC ACCT 411.4	56/22, 25/26
12	TOTAL OPER. REV. DEDUCTIONS	92,930,766	(1,253,356)	91,677,410	91,677,410	SUM OF LINES 4 THROUGH 11	
13	NET OPERATING INCOME	103,573,223		48,934,548	48,934,548	LINE 3 LESS LINE 12	
14	INTEREST ON LONG TERM DEBT			9,389,359	9,389,359	APPENDIX "A" PAGE 7, LINE 1	23/1.31
15	INTEREST ON CUSTOMER DEP.			128,567	128,567	APPENDIX "A" PAGE 7, LINE 2b	23/2
	A> Additional Staff expense adjustments			0	0	See Issues List	
16	TOTAL DEBT EXPENSE			9,517,926	9,517,926	SUM OF LINES 14 & 15	
17	FUNDS AVAIL. FOR INC. TAX AND EQUITY			39,416,622	39,416,622	LINE 13 LESS LINE 16	
18	LESS INCOME TAXES:			9,196,050	9,196,050	EFFECTIVE TAX RATE TIMES LN 17	
18A	PROJECTED AFTER-TAX RETURN ON EQUITY FROM SIR			38,998,390	N/A	SIR Projected Annual End of Period return on investment (SIR G1 line 7)	
19	ADJ. INCOME AVAILABLE FOR EQUITY			69,218,962	30,220,572	LN 17 LESS LN 18 PLUS LN 18A	
20	RETURN ON EQUITY RATEBASE			9.32%	8.40%	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	19/(22/5*5/23)

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

APPENDIX "A"
Page 5
CALCULATION OF EXPECTED RETURN

Atmos Energy Corporation – Mississippi Division

DETAIL OF KNOWN AND MEASURABLE CHANGES:

Line				Page/Line
A.	ANNUALIZED PRIOR ADJUSTMENT			
1	ADJUSTABLE ANNUAL REVENUE FROM THE TEST PERIOD		52,135,103	3/13
2	MOST RECENT AUTHORIZED STABLE RATE FACTOR MINUS 1		1.41399	
3	ANNUALIZED STABLE RATE REVENUE FROM MOST RECENT EVALUATION		73,718,514	
	LESS:			
4	ACTUAL STABLE RATE REV COLLECTED IN THE TEST PERIOD		71,531,612	3/13
5	ADJ. TO ANNUALIZE REVENUE FROM MOST RECENT STABLE RATE FACTOR		2,186,902	
	LESS:			
6	MUNICIPAL FRANCHISE TAX	1.75%	38,278	
7	***ANNUALIZED PRIOR ADJUSTMENT***		$ 2,148,624	
B.	OTHER KNOWN AND MEASURABLE CHANGES			

CASE NO. 2024-00276
ATTACHMENT 2
TO AG DR NO. 1-98

Docusign Envelope ID: BF790082-E0E6-4350-AFB1-7DD2BD56FEA7

Atmos Energy Corporation – Mississippi Division

Schedule of Test Period Known & Measurable Adjustments

Section	Description	KNOWN AND MEASURABLE CHANGES	TOTAL ADJUSTMENTS	EXPLANATION OF ADJUSTMENTS	Page/Line
1.	**OPERATING REVENUE**				
	A> Annualized Prior Adjustments	$ 2,148,624	$ 2,148,624	Annualized Prior Adjustment - Appendix A p 6.	26/7
	B> Margin Adjustment - SIR	(58,123,339)	(58,123,339)	Remove amounts related to SIR from March balances	
	C> Large Customer Activity Net Gain or Loss	82,684	82,684	Reflect revenue impact of large company changes	
	TOTAL ADJUSTMENTS TO REVENUE	$ (55,892,030)	$ (55,892,030)		
2.	**LESS: GAS PURCHASED FOR RESALE**				
	A>	$ -	$ -		
	TOTAL ADJ. TO GAS PURCHASES	$ -	$ -		
3	(Left Blank as a Placeholder)				
4	**ADJ to OPERATING & MAINTENANCE EXPENSE**				
	A> Spousal Travel / Gifts / Club Dues	$ (5,361)	$ (5,361)	Subaccts 05412 Dependent Travel & 05416 Nondeductible Dues	54/7
	B> Expense Adjustment	(150,000)	(150,000)	Miscellaneous Expense Adjustment pending additional review	
	C> Non-recoverable Advertising	(86,941)	(86,941)	Appendix D — Advertising	52/43
	D> O&M Reclass Expense Adjustment	(10,341)	(10,341)	Legal expense reclass; see Company's response to MPUS 1-65	
	E> Adj Bad Debt Exp to Reflect Actual Write-offs	14,340,333	14,340,333	Transfered recovery of uncollectible account balances from the Stable Rate Adjustment to the Purchased Gas Adjustment; Adjust out Acct	54/52
	F> Charitable Contributions	48,200	48,200	Recoverable under Rule 29, Section 107.4	
	F> Additional Expense Adjustments - Gross Payroll	(44,768)	(44,768)	See Issues List	
	G> Additional Expense Adjustments - Lobbying	0	0		
	H> Additional Staff Adjustments - Incentive Comp	(1,030,459)	(1,030,459)		
	I> Additional Staff Adjustments - Expense Review	(598,301)	(598,301)		
	J> Additional Staff Adjustments - IDI	(4,055)	(4,055)		
	K> Additional Staff Adjustments - Remove Lobbying Expense	0	0		
	L>Remove Known & Measurable Charitable Contributions	0	0		
	M>Remove Personal Use of Company Vehicle	(66,210)	(66,210)		
	TOTAL ADJUSTMENTS TO O&M EXPENSE	$ 12,392,101	$ 12,392,101		
5.	**RENT OF DIST. PROPERTY**				
	A>	$ -	$ -		
	TOTAL ADJ. TO RENT OF DIST PROP	$ -	$ -		
6.	**GENERAL TAXES**				
	A> State Regulatory Tax - Adjust Accrual for Test Year Revenue	$ (7,427)	$ (7,427)		45/20
	B> Reduce Franchise Tax for Margin Adjustments	(978,287)	(978,287)		44/2
	C> Adjust to Projected Property Taxes	2,293,668	2,293,668		46/21
	D> Adjust for SIR Property Taxes from the Test Year	(8,476,068)	(8,476,068)	Remove amounts related to SIR from March balances	
	E> Adjust Regulatory Tax Expense to Most Current Date	(109,898)	(109,898)		
	TOTAL ADJUSTMENTS TO GENERAL TAXES	$ (7,278,012)	$ (7,278,012)		
7.	**MISC. INCOME DEDUCTIONS**				
	A>	$ -	$ -		
	TOTAL ADJUSTMENTS MISC. INC. DEDUCTIONS	$ -	$ -		
8.	**DEPRECIATION**				
	A> Adjustment for Change in Depreciable Property	$ 1,674,881	$ 1,674,881	Adjust from March per-books to projected amounts	27/9
	B> Adjust for SIR for the test year	(10,054,420)	(10,054,420)	Remove amounts related to SIR from March balances	
	C> Energy Delivery Program Amortization	2,012,094	2,012,094	Energy Delivery Program Amortization	65/1
	TOTAL ADJUSTMENTS TO DEPRECIATION	$ (6,367,444)	$ (6,367,444)		
9.	**AMORTIZATION OF GAS INVESTMENT**				
	A>	$ -	$ -		
	TOTAL ADJUST. TO AMORT. GAS INVESTMENT	$ -	$ -		
10.	**AMORT. OF DEBT EXPENSE**				
	A>	$ -	$ -		
	TOTAL ADJUST. TO AMORT OF DEBT EXP.	$ -	$ -		
11.	**ALLOW. FOR FUNDS USED DURING CONST.**				
	A>	$ -	$ -		
	B>	-	-		
	TOTAL ADJUST. TO AFUDC	$ -	$ -		
12	**AMORT. OF INVESTMENT TAX CREDIT**				
	A>	$ -	$ -		
	TOTAL ADJUST. TO ITC	$ -	$ -		

APPENDIX "A"
Page 6 part B
Schedule of Known and Measurable Changes

Atmos Energy Corporation - Mississippi Division

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.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 29, 2024

IN RE:	)	
	)	
PETITION OF ATMOS ENERGY CORPORATION	)	**DOCKET NO.**
FOR APPROVAL OF ITS 2024 ANNUAL RATE	)	**24-00006**
REVIEW FILING PURSUANT TO TENN. CODE	)	
ANN. § 65-5-103(d)(6)	)	

ORDER APPROVING SETTLEMENT AGREEMENT REVISING 2024 ANNUAL RATE REVIEW FILING

This matter came before Chairman Herbert H. Hilliard, Vice Chairman David F. Jones, Commissioner Clay R. Good, Commissioner Kenneth C. Hill, and Commissioner David Crowell of the Tennessee Public Utility Commission ("TPUC" or the "Commission"), the panel assigned to this docket, during a regularly scheduled Commission Conference held on May 20, 2024, for consideration of the *Stipulation and Settlement Agreement* ("*Settlement Agreement*") filed by Atmos Energy Corporation ("Atmos", "Atmos Energy", or the "Company") and the Consumer Advocate Division of Office of the Tennessee Attorney General and Reporter ("Consumer Advocate") on April 29, 2024.

BACKGROUND

In Docket No. 14-00146, the Commission approved a settlement agreement between Atmos and the Consumer Advocate implementing for Atmos an Annual Rate Review Mechanism ("ARRM") pursuant to Tenn. Code Ann. § 65-5-103(d)(6).[1] This mechanism allows for annual

[1] *See In re: Petition of Atmos Energy Corporation for a General Rate Increase under T.C.A. 65-5-103(a) and Adoption of an Annual Rate Review Mechanism Under T.C.A. 65-5-103(d)(6)*, Docket No. 14-00146, *Order Approving Settlement* (November 4, 2015) (hereinafter *Atmos Rate Case,* Docket No. 14-00146*, Order Approving Settlement*).

rate reviews by the Commission in lieu of a general rate case.[2] Pursuant to the *Order Approving Settlement* in Docket No. 14-00146, the twelve-month period ending September 30th of each year prior to the annual ARRM filing date of February 1st was to be used as the test year, with rates to be established based on a forward-looking test year for the twelve-month period ending May 31st of each following year.[3] Additionally, the Company was required to use the authorized return on equity as established in Docket No. 14-00146 or any subsequent general rate case.[4]

In addition to the annual rate review filing due by no later than February 1st of each year, a second step of the ARRM required the Company to file an Annual Reconciliation to the authorized return on equity by September 1st of each year.[5] This filing was required to reconcile actual amounts to the Company's authorized return on equity for the forward-looking test year that immediately completed, inclusive of interest, at the overall cost of capital compounded for two years.[6] The resulting rates would be effective on bills rendered on or after June 1st.[7]

Docket No. 18-00112 was opened to explore modifications to the Company's ARRM, and the Consumer Advocate and Commission Party Staff ("Party Staff") participated in the docket. The Company, Consumer Advocate, and Party Staff reached an agreement in Docket No. 18-00112 and filed the stipulation and settlement agreement on October 2, 2019. The Commission approved the settlement and found that the terms and procedures of the modified ARRM were reasonable and consistent with the provisions of Tenn. Code Ann. § 65-5-103(d)(6), and that the transition schedule from two annual filings to a single filing was reasonable and appropriate.[8] In

[2] Tenn. Code Ann. § 65-5-103(d)(6).
[3] *Atmos Rate Case,* Docket No. 14-00146, *Order Approving Settlement,* pp. 5-6 (November 4, 2015).
[4] *Id.*
[5] *Id.* at 5.
[6] *Id.*
[7] *Id.* at 7.
[8] *In re: Docket to Investigate and Consider Modifications to Atmos Energy Corporation's Annual Rate Review Mechanism Under Tenn. Code Ann.§ 65-5-103(d)(6)*, Docket No. 18-00112, *Order Approving Stipulation and Settlement Agreement*, pp. 9-10 (December 16, 2019).

addition, the Commission found that the modified ARRM continues to be in the public interest and will allow Atmos to timely recover its investment and operating expenses, while continuing to provide safe and reliable service to its customers.[9] The Company's most recent ARRM filing was resolved through the approval of a settlement agreement in Docket No. 23-00008.[10]

<u>THE *2024 TENNESSEE ANNUAL RATE REVIEW FILING*</u>

Atmos submitted the *2024 Tennessee Annual Rate Review Filing* ("2024 ARRM"), including the pre-filed direct testimony of William D. Matthews, Manager of Rates and Regulatory Affairs, on January 30, 2024. The 2023 ARRM filing proposed a $20,389,622 revenue deficit supported by the requisite workpapers, schedules, testimony, attestation, and proposed tariff revisions. In pre-filed testimony in support of the filing, Mr. Matthews calculated Atmos' total cost of service as of September 30, 2023, the end of the historic test period, in the amount of $212,481,913. According to Mr. Matthews, the Company's twelve-month revenue as of September 30, 2023, using current tariff rates and weather-normalized actual billing determinants is $196,873,584, with the difference of these resulting in a Net Revenue Deficiency of $15,608,329.[11]

The Company's Annual Reconciliation Revenue Requirement ("ARRR") is a comparison of the Company's actual cost of service – excluding gas costs – for the test period and the Company's actual gross margin for the same period. According to Mr. Matthews, the ARRR calculation (including allowable carrying costs) for this ARRM filing results in a $5,036,506 revenue requirement. In addition to the Company's computed Net Revenue Deficiency and its ARRR, Mr. Matthews noted that, per approved methodologies, he had included the $255,213

[9] *Id.*
[10] *In Re: Petition of Atmos Energy Corporation For Approval of Its 2023 Annual Rate Review Filing Pursuant to Tenn. Code Ann. 65-5-103(d)(6)*, Docket No. 23-00008, *Order Approving Stipulation and Settlement Agreement* (June 22, 2023).
[11] William D. Matthews, Pre-Filed Testimony, pp. 3-4 (January 30, 2024).

credit associated with amortization of the Company's excess deferred income tax ("EDIT") liability. The net of these three amounts results in the Company's proposed Total Revenue Deficiency of $20,389,622.[12]

In addition, Mr. Matthews provided individual explanations for each of the Company's eleven schedules included with this filing and provided an attestation that any adjustments (e.g., Generally Accepted Accounting Principles ("GAAP") pension expense accruals, incentive compensation amounts, and others as previously approved) reflected in the schedules are consistent with previously approved methodologies.[13] Mr. Matthews confirmed the Company's ARRM filing reflects the new depreciation rates as approved by the Commission at its December 2023 conference in Docket 23-00050. As a result of the updated depreciation rates, the Company has extended the remaining life of its plant investment from thirty-five years to thirty-nine years. As the protected portion of the Company's EDIT is based on the remaining depreciable life of underlying plant assets, this adjustment impacts the calculation of its annual protected EDIT amortization credit. Mr. Matthews clarified the Company's amortization credits associated with unprotected Accumulated Deferred Income Tax ("ADIT") have been completely refunded to its customers after a three-year amortization period.[14] Consistent with the previous ARRM filing, Mr. Matthews attested that the Company included an adjustment to remove the $2.2 billion of debt associated with Winter Storm Uri. According to the Company, the adjustment is appropriate since Uri did not have an extraordinary impact on Tennessee's gas costs.[15]

According to Mr. Matthews, the Company's proposal and the recovery of the proposed

[12] *Id.* at 4.
[13] *Id.* at 6-15.
[14] *Id.* at 11-13.
[15] *Id.* at 14.

revenue deficiency is consistent with its ARRM tariff and approved methodologies.[16]

<u>POSITION OF THE CONSUMER ADVOCATE</u>

On behalf of the Consumer Advocate, Mr. William H. Novak submitted pre-filed direct testimony on April 4, 2024. Based upon his review, Mr. Novak testified that the Company's filing reflects the mechanism's approved methodologies. Nevertheless, Mr. Novak testified that the Company's filing contains some errors and miscalculations related to the Company's proposed Other Revenues and its Cost of Capital.[17]

In Docket No. 23-00008, Atmos agreed to a settlement agreement authorizing the Company to reinstate its forfeited discount and miscellaneous service charges, classified as "Other Revenue," to its customers effective July 2023.[18] Atmos had previously halted these charges in response to the Commission's 2020 pandemic-related directive for public utilities to suspend disconnections for customer nonpayment. According to Mr. Novak, Atmos included only a partial year's Other Revenues of $171,609, from the period of July 2023 through September 2023, in its filing. Mr. Novak proposed a full year of these Other Revenues should be included in the Company's filing, resulting in the calculation of the Company's Other Revenues for the 2024 ARRM filing in the amount of $1,239,248 from its most recent rate case, as opposed to the $171,609 partial year amount proposed by the Company in this year's ARRM filing.[19]

For consistency, Mr. Novak recommended the Company adopt its forfeited discount rate of 1.0971% from that last rate case as a component of the revenue conversion factor in its current ARRM filing. After adjusting the Other Revenue amounts and increasing the revenue conversion

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[16] *Id.* at 15-16.
[17] William H. Novak, Pre-Filed Direct Testimony, pp. 6-7 (April 4, 2024).
[18] *Id.* at 7.
[19] *Id.* at 8.

factor, Mr. Novak's proposed adjustment to the Company's requested revenue deficiency was a $1,271,171 decrease.[20]

Next, Mr. Novak recommended a modest increase in the Company's proposed cost of capital from 7.62% to 7.64%. According to Mr. Novak, the Company inadvertently understated its short-term debt cost by $50,000 and included the long-term portions of capital leases in the computation of its cost of capital. The impact of including the full cost of short-term debt and omitting the capital lease amounts is a 0.02% increase in the Company's cost of capital. After adjusting Atmos' cost of capital, Mr. Novak's proposed adjustment to the Company's requested revenue deficiency was a $164,674 increase.[21]

Finally, Mr. Novak included a $1,018 reduction to the Company's requested revenue shortfall, which he labels "Other Miscellaneous Adjustments" for which Mr. Novak did not provide any explanation.[22] Mr. Novak calculated his recommended adjustments to the Company's original submission result in a revenue deficit of $19,282,107 for the twelve months ended September 30, 2023.[23]

REBUTTAL TESTIMONY OF THE COMPANY

In pre-filed rebuttal testimony filed on April 22, 2024, Mr. Matthews addressed the Consumer Advocate's recommendations. Mr. Matthews testified that the Company agrees with Mr. Novak's proposed adjustment to its cost of capital but disagreed with his other proposed adjustments to the Company's filed revenue deficiency.[24]

[20] *Id.* at 7-9.
[21] *Id.* at 9-10.
[22] *Id.* at 11.
[23] *Id.*
[24] William D. Matthews, Pre-Filed Rebuttal Testimony, pp. 1-2 (April 22, 2024).

Mr. Matthews disagreed with Mr. Novak's proposed $1,271,171 adjustment to restore its Other Revenues (i.e., forfeited discounts and miscellaneous service charges) amount and its forfeited discount conversion factor for its test period from the Company's previous rate case.[25] According to Mr. Matthews, the proposed adjustment is not consistent with the Company's approved methodologies in that it ignores the true-up reconciliation process. Mr. Matthews testified that the Company complied with the settlement agreement in Docket No. 23-00008 to reinstate its forfeited discounts and miscellaneous service charges to its customers during the test period.

Furthermore, Mr. Matthews argued that, though the Company's test period in this filing includes these revenues for only three months, future filings will include a full year's worth and the revenue reconciliation process would follow approved methodologies via the test period's true-up process.[26] Mr. Matthews further testified that the Company's computation of the forfeited discount conversion factor is consistent with approved methodologies since it uses the test period's actual forfeited discounts as a percentage of total revenue.[27]

With respect to Mr. Novak's recommendation that the Company's cost of capital should be increased from 7.62% to 7.64%, Mr. Matthews agrees with the proposal.[28] The Company inadvertently understated its short-term debt cost by $50,000 and included the long-term portions of capital leases in the computation of its approved cost of capital. Though the Parties agree on this adjustment, Mr. Matthews quantified the amount of the associated increase in its filed revenue deficiency as $166,477, as opposed to Mr. Novak's calculation of $164,674.[29]

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[25] *Id.* at 5.
[26] *Id.* at 5-6.
[27] *Id.* at 6-7.
[28] *Id.* at 4.
[29] *Id.* at 2-4.

With respect to Mr. Novak's Other Miscellaneous Adjustments reduction of $1,018 to the Company's filed revenue shortfall, Mr. Matthew's disagreed due to a lack of supporting details and the overall immateriality of the proposed adjustment.[30] Finally, Mr. Matthews expressed the Company's opposition to Mr. Novak's proposed rate design. Mr. Matthews states that, although the difference from the Company's recommended design is relatively minor, Mr. Novak's recommendation lacks compliance with approved methodologies since it shifts proportionately more of the revenue deficiency to volumetric charges than to base charges across the Company's various rate schedules.[31]

In summary, Mr. Matthews presented the Company's revised revenue deficit in the amount of $20,556,100, representing a slight increase from its initial calculation of $20,389,622 in the 2024 ARRM filing.[32]

<u>SETTLEMENT AGREEMENT</u>

On April 29, 2024, the parties filed the *Settlement Agreement*, in which the Company and the Consumer Advocate agreed to four adjustments, three of which reduce the originally proposed $20,389,622 revenue shortfall to a net revenue deficit of $19,415,875. For the fourth adjustment, the Parties have stipulated that the revenue deficit would be recovered via both base and usage charges consistent with the methodology proposed by the Consumer Advocate in Mr. Novak's testimony.[33]

The first adjustment is an agreement by the Parties to make a full-year adjustment for Other Revenues rather than only three months. The Parties agreed to use the Consumer Advocate's proposal to incorporate the amount of Other Revenues used in the Company's most recent rate

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[30] *Id*. at 8.
[31] *Id*. at 7-8.
[32] *Id*. at 9.
[33] *Settlement Agreement*, pp.2-3, paragraph 5 (April 29, 2024).

case in Docket No. 14-00146. The Parties also agreed to use the Company's proposed forfeited discount conversion factor since it is based on the methodology that was approved in the Company's past ARRM docket, 18-00112.[34] The impact of this adjustment to the Company's originally proposed revenue deficit is a $1,137,403 reduction.[35]

The second adjustment is the Company's correction of errors in both its short- and long-term debt cost rates to match those proposed by the Consumer Advocate. This adjustment increases the Company's proposed revenue requirement by $164,674.[36] The third adjustment is Company's acceptance of $1,018 in various miscellaneous reductions to its originally proposed revenue shortfall. These miscellaneous reductions were proposed by the Consumer Advocate in its testimony as filed on April 4, 2024.[37] Finally, the Parties agreed to divide the revenue requirement between the Company's base and volumetric customer rates by employing the methodology proposed by the Consumer Advocate in its testimony filed on April 4, 2024. This breakout by rate schedule is demonstrated in Exhibits A and B, as attached to the *Settlement Agreement*.[38]

Applying these adjustments to the Company's originally filed revenue deficiency of $20,389,622 results in a settled revenue deficiency of $19,415,875, as demonstrated in Exhibit B of the *Settlement Agreement's* revenue requirement model.

THE HEARING

The hearing on the merits was publicly noticed by the Commission on May 10, 2024, and held during the regularly scheduled Commission Conference on May 20, 2024. Appearances were made by the following:

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[34] *Id*. at .2-3.
[35] *Id*. at Exhibit B.
[36] *Id*.
[37] *Id*.
[38] *Id*. at Exhibit A.

<u>Atmos Energy Corporation</u>. – Erik Lybeck Esq., Sims & Funk, PLC, 3322 West End Ave., #200 Nashville, Tennessee 37203.

<u>Consumer Advocate Division</u> – Shilina B. Brown, Esq. Consumer Advocate Division of the Office of the Tennessee Attorney General and Reporter, Post Office Box 20207, Nashville, Tennessee, 37219.

The panel heard testimony by Mr. William D. Matthews concerning the *Settlement Agreement*. Members of the public were given an opportunity to offer comments, but no one sought recognition to comment.

<u>FINDINGS & CONCLUSIONS</u>

After review of the record in its entirety, the panel voted unanimously to approve the *Stipulation and Settlement Agreement* filed by the Parties on April 29, 2024, including the Parties' agreed-upon $19,415,875 net revenue deficiency presented in Schedule 1 of the *Settlement Agreement's* Exhibit B. This amount consists of (1) a forward-looking revenue deficiency of $14,595,962 at September 30, 2023; (2) an offsetting $255,213 credit for amortization of excess accumulated deferred income taxes associated with the 2017 Tax Cuts and Jobs Act; and (3) a revenue deficiency of $5,075,126 resulting from the test year's annual reconciliation revenue requirement calculation.

Further, in accordance with the *Settlement Agreement*, the panel voted unanimously to approve the proposed rate design, as presented in Exhibit A and Exhibit B, Schedule 11-3. This rate design permits the Company to collect its revenue deficit through both fixed and volumetric customer charges. Finally, the panel found that the Company's annual rate review filing continues to be in the public interest by allowing Atmos Energy to timely recover its investment and operating expenses, while promoting safe and reliable natural gas service to its customers.

IT IS THEREFORE ORDERED THAT:

1. The *Stipulation and Settlement Agreement* filed by Atmos Energy Corporation and

the Consumer Advocate Division of the Tennessee Attorney General and Reporter on April 29, 2024, is APPROVED.

2. Atmos Energy Corporation shall file tariffs reflecting this decision.

3. Any party aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen days from the date of this Order.

4. Any party aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

Chairman Herbert H. Hilliard,
Vice Chairman David F. Jones,
Commissioner Clay R. Good,
Commissioner Kenneth C. Hill, and
Commissioner David Crowell concurring.

None dissenting.

ATTEST:

Earl Taylor abh

____
Earl R. Taylor, Executive Director

CHRISTI CRADDICK, *CHAIRMAN*
RYAN SITTON, *COMMISSIONER*
WAYNE CHRISTIAN, *COMMISSIONER*

DANA AVANT LEWIS, *DIRECTOR*

RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION

May 22, 2019

TO: All Parties of Record

RE: **GUD No. 10779, *consolidated***, *Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corp., Mid-Tex Division (Atmos), by the Cities of Balch Springs, Bandera, Belton, et al.*

HEARINGS LETTER NO. 16
Final Order

Attached is a copy of the Final Order in this docket, signed at the May 21, 2019 conference.

Sincerely,

John Dodson
Administrative Law Judge

Attachment

cc: Service List

Service List

GUD No. 10779, *Consolidated*
Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corp., Mid-Tex Division, by the Cities of Balch Springs, Bandera, Belton, et al.

Administrative Law Judge: John Dodson
Technical Examiners: James Currier and Rose Ruiz

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cc: Kari French, RRC Austin – Director, Oversight & Safety Division
Mark Evarts, RRC Austin – Director, Marketing Oversight Section

16 TEX. ADMIN. CODE § 1.7 (Ex Parte Communications):

(a) *Ex parte communications are prohibited in contested cases as provided in the APA and other applicable rules including the Texas Disciplinary Rules of Professional Conduct.*

(b) *Each party shall provide all other parties with a copy of all documents submitted to an examiner.*
  (1) *The attachment of a certificate of service stating that a document was served on a party creates a rebuttable presumption that the named party was provided a copy.*
  (2) *Failure to provide a copy to all other parties may result in rejection and return of the document without consideration.*

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

PETITION FOR DE NOVO REVIEW OF THE DENIAL OF THE STATEMENT OF INTENT FILED BY ATMOS ENERGY CORP., MID-TEX DIVISION BY THE CITIES OF BALCH SPRINGS, BANDERA, BELTON, ET AL.	§ § § § § § §	**GUD NO. 10779, *Consolidated***

FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to Tex. Gov't Code Chapter 551, *et seq.* (West 2017 & Supp. 2018). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

Procedural History and Notice

1. Atmos Energy Corp., Mid-Tex Division ("Atmos") is a gas utility as that term is defined in the Texas Utilities Code and is subject to the jurisdiction of the Railroad Commission of Texas ("Commission").

2. Atmos filed a municipal Statement of Intent proceeding with the cities of Austin, Balch Springs, Bandera, Belton, Blooming Grove, Burnet, Cameron, Cedar Park, Clifton, Commerce, Copperas Cove, Corsicana, Electra, Fredericksburg, Gatesville, Goldthwaite, Granbury, Greenville, Groesbeck, Hamilton, Heath, Henrietta, Hickory Creek, Hillsboro, Lampasas, Leander, Longview, Marble Falls, Mart, Mexia, Olney, Pflugerville, Point, Princeton, Ranger, Rice, Riesel, Rockdale, Rogers, Round Rock, San Angelo, Sanger, Somerville, Star Harbor, Trinidad, and Whitney on June 1, 2018, and the City of Hico on July 31, 2018 (collectively, "Affected Cities").

3. Atmos provided notice of the proposed rate changes to residential and commercial customers through bill insert. Notice to industrial and other non-residential and non-commercial customers was provided by direct mail to the billing address of the affected customer.

4. Atmos subsequently filed the following *Petitions for De Novo Review* ("Petitions") of the denial of the Statement of Intent by the various municipalities that denied that rate request:

    a. GUD No. 10779, *Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corp., Mid-Tex Division by the Cities of Balch Springs, Bandera, Belton, et al.*

b. GUD No. 10788, *Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corp., Mid-Tex Division by the Cities of Hico, Rogers, and Trinidad.*

c. GUD No. 10794; *Petition for De Novo Review of the Denial of the Statement of Intent Filed by Atmos Energy Corp., Mid-Tex Division by the City of Clifton.*

5. On October 12, 2018, the Atmos Texas Municipalities ("ATM") filed a Motion to Intervene on behalf of the Affected Cities.

6. On October 23, 2018, the Administrative Law Judge ("ALJ") granted ATM's Motion to Intervene.

7. On December 4, 2018, Hearings Letter No. 5 was issued consolidating GUD Nos. 10788 and 10794 into GUD No. 10779.

8. The rate case expenses associated with GUD No. 10779 were severed on December 4, 2018 in Hearings Letter No. 7 and will be considered in a separate docket, GUD No. 10796.

9. On December 7, 2018, and February 7, 2019, Atmos filed certain errata to its original Petition (the "Errata Filings"). The Errata Filings did not change Atmos's requested cost of service.

10. On February 12, 2019, a Notice of Hearing was issued in Hearings Letter No. 8. The notice contained the date, time, place, and nature of the hearing, a statement of the legal authority and jurisdiction under which the hearing is to be held, a reference to the particular sections of the statutes and rules involved, and a short, plain statement of the factual matters asserted.

11. A hearing on the merits was held on March 7, 2019. It concluded the same day.

12. The evidentiary record closed on March 13, 2019, with the issuance of Hearings Letter No. 13.

13. The Proposal for Decision ("PFD") was issued on April 24, 2019.

14. The deadline for Commission action is May 31, 2019.

Temporary Rates

15. On February 22, 2019, Atmos and ATM filed a Joint Motion to Establish Temporary Rates.

16. On February 25, 2019, the ALJ issued an order establishing Temporary Rates from March 1, 2019, through May 31, 2019, as follows:

	Customer Charge	Consumption Charge	
Residential	$20.89	$0.14846 per Ccf	
Commercial	$49.68	$0.09165 per Ccf	
I&T	$907.67	$0.3312	0 to 1,500 MMBtu
		$0.2425	Next 3,500 MMBtu
		$0.0520	Over 5,000 MMBtu

17. The temporary rates established for the period March 1, 2019, through May 31, 2019, and adopted on February 25, 2019, are not subject to true up.

Partial Settlement Agreement

18. On February 22, 2019, Atmos and ATM filed a partial settlement agreement resolving all issues except whether short-term debt should be used in calculating Atmos's capital structure (the "Partial Settlement"). The Partial Settlement is appended to this Order as Attachment 1.

19. The terms of the Partial Settlement are just and reasonable.

20. All issues resolved in the Partial Settlement—approved and agreed to by Atmos and the Affected Cities—reflect ratemaking actions that Atmos and the Affected Cities agree should have been in the appealed ordinances.

Books and Records

21. Atmos established that it maintains its books and records in accordance with the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("USOA") prescribed for natural gas companies.

22. Atmos established that it has complied with the books and records requirements of Commission Rule § 7.310, and therefore the amounts included therein are entitled to the presumption in Commission Rule § 7.503 that these amounts are reasonable and necessary.

Revenue Requirement

23. Atmos's proposed cost of service is based upon the financial data for the twelve-month period ending December 31, 2017, adjusted for known and measurable changes.

24. A system-wide base revenue requirement of $594,158,976—excluding "Other Revenue" shown on cost of service Schedule A—for the Mid-Tex Division is just and reasonable and permits Atmos a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expense.

25. Atmos Mid-Tex is an unincorporated division of Atmos Energy, and Atmos Energy is the corporate entity that issues debt and stock.

26. Adoption of a system-wide revenue requirement of $594,158,976 will result in an apportioned revenue requirement increase of approximately $2,026,653 for the Affected Cities, excluding revenue from Rider FF and Rider Tax, or $2,160,494, including revenue from Rider FF and Rider Tax.

27. A rate base amount totaling $2,572,769,055, as presented in Exhibit B to the Partial Settlement, is just and reasonable.

28. It is reasonable to continue the use of the depreciation rates established in GUD No. 10170 as presented in Exhibit B to the Partial Settlement.

29. The revenue requirement reflects a reduction of the corporate income tax rate from 35 percent to 21 percent to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017.

30. The revenue requirement reflects an adjustment to federal income tax expense for excess deferred income taxes ("EDIT") resulting from the Tax Cuts and Jobs Act of 2017. The EDIT adjustment has been computed based on the Reverse South Georgia Method ("RSG") for those amounts required under Internal Revenue Service normalization rules. This adjustment and methodology are reasonable.

31. It is reasonable to amortize Atmos's protected EDIT liabilities over a 24-year period as determined by the RSG method. Atmos's unprotected EDIT should be amortized over the same 24-year period.

32. Atmos established that system-wide expenses associated with services acquired from Blueflame, a wholly-owned subsidiary of Atmos Energy that provides insurance for all of its divisions, in the amount of $453,877 are (a) reasonable and necessary and (b) the price charged to Atmos is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a non-affiliated person for the same item or class of items as required by Tex. Util. Code § 104.055(b)(1).

33. Atmos may pursue recovery of a deferred benefit regulatory asset or liability pursuant to Tex. Util. Code § 104.059 (West 2007 & Supp. 2017) in a future filing. The following amounts are established as the base-year levels to track changes in pension-related and other post-employment benefits:

Entity	Pension Account Plan	Post-Employment Benefit Plan	Supplemental Executive Benefit Plan	Total
SSU Allocated to Mid-Tex	$1,425,108	$943,775	$ 0	$2,368,883
Mid-Tex Direct	$1,987,133	$1,062,621	$35,837	$3,085,591
Total	**$3,412,241**	**$2,006,396**	**$35,837**	**$5,454,474**

34. The purpose of establishing a ratemaking capital structure is to determine the rate of return that provides the utility a reasonable opportunity to earn a fair return on its invested capital.

35. An overall rate of return of 7.97 percent, calculated using the components in the below Finding of Fact No. 45, is just and reasonable, supported by the facts and evidence unique to this case, and will not yield more than a fair return on the adjusted value of the invested capital used and useful in providing service to the public.

36. Consistent with the Partial Settlement, the weight of the credible evidence supports a capital structure for Atmos composed of 60.18 percent equity and 39.82 percent long-term debt.

37. The preponderance of the evidence supports that Atmos Energy used short-term debt in each calendar quarter of each year since January 1, 2013, through the end of its test year, December 31, 2017, and for all but one quarter from January 1, 2018, through December 31, 2018.

38. Atmos Energy's 10K and 10Q forms support that Atmos Energy uses a combination of short-term debt, long-term debt, and equity to finance capital projects.

39. Atmos Energy's recent financings were shown to be consistent with financing long-term assets with equity and long-term debt and extinguishing short-term debt through a mix of permanent refinancing comprised of long-term debt and equity offerings.

40. Fluctuations in Atmos Energy's short-term debt balance support that it uses short-term debt funding to finance daily activities, such as payroll, purchased gas costs and construction work in progress, which are not included in rate base.

41. The preponderance of the evidence supports that Atmos does not rely on short-term debt to finance its assets in rate base.

42. Atmos's capital structure of 60.18 percent equity and 39.82 percent long-term debt is within the range of the capital structures of the comparable, proxy grouping of companies used in this case.

43. It is reasonable to adopt a 9.8 percent return on equity.

44. A cost of debt of 5.2 percent for purposes of determining Atmos's weighted average cost of capital and allowable rate of return is just and reasonable.

45. The following capital structure, cost of debt, cost of equity, weighted cost of capital, overall return, and pre-tax return for the Mid-Tex Division is just and reasonable:

Class of Capital	Percent	Cost	Weighted Average Cost of Capital	Pre-Tax Return (ROR)
Long Term Debt	39.82%	5.2%	2.07%	2.07%
Common Equity	60.18%	9.8%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

46. It is just and reasonable that any Interim Rate Adjustment ("IRA") filing made with the Affected Cities pursuant to Tex. Util. Code § 104.301 use the following additional factors until changed by a subsequent general rate proceeding:

   a. For any initial IRA filing, the beginning ad valorem tax rate at a Mid-Tex Division level is 1.18 percent and the Shared Services Ad Valorem Tax Rate is 0.69 percent. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.

   b. For any initial IRA filing, the system-wide net plant in service amount in the Mid-Tex Division shall be $3,209,005,831, as presented in Exhibit B to the Partial Settlement.

   c. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10170 as presented in Exhibit B to the Partial Settlement.

   d. For any initial IRA filing, the customer charges and consumption charges as shown below will be the starting rates to which any IRA adjustment is applied.

   e. Federal income taxes will be calculated using a 21 percent rate, unless the federal income tax rate changes, in which case the new rate will be applied.

f. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	Percentage
Rate R – Residential Sales	77.95%
Rate C – Commercial Sales	19.40%
Rate I & T – Industrial/Transportation Sales	2.65%

47. Rates for the Affected Cities based on a system-wide revenue requirement of $594,158,976 are shown below:

	Customer Charge	**Consumption Charge**	
Residential	$18.85	$0.14846	
Commercial	$43.50	$0.09165	
I&T	$784.00	$0.3312	0 to 1,500 MMBtu
		$0.2425	Next 3,500 MMBtu
		$0.0520	Over 5,000 MMBtu

48. Rates adopted as part of this Order are effective for bills rendered on and after June 1, 2019.

49. The tariffs attached to this Order are just and reasonable.

CONCLUSIONS OF LAW

1. Atmos is a gas utility as defined in Tex. Util. Code §§ 101.003(7) and 121.001, and is, therefore subject to the jurisdiction of the Commission.

2. Under Tex. Util. Code § 103.051, *et seq.*, the Commission has jurisdiction over the appeal of a municipal order establishing gas utility rates.

3. This proceeding was conducted in accordance with the requirements of Tex. Util. Code §§ 103.051 *et seq.* and the Administrative Procedure Act, Tex. Gov't Code §§ 2001.001 *et seq.*

4. Adequate notice was properly provided under Tex. Util. Code § 104.103 and Gov't Code § 2001.051.

5. Atmos established that its books and records conform with 16 Tex. Admin. Code § 7.310. Therefore, Atmos is entitled to the presumption that the amounts included therein are reasonable and necessary in accordance with 16 Tex. Admin. Code § 7.503.

6. Atmos's insurance transactions with Blueflame comply with Tex. Util. Code § 104.055(b)(1).

7. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for Atmos that will permit it a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by Tex. Util. Code § 104.051; and otherwise comply with Chapter 104 of the Texas Utilities Code.

8. The revenue, rates, rate design, and service charges identified in the schedules attached to this Order are just and reasonable, are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumer, as required by Tex. Util. Code §§ 101.002, *et seq*.

9. The revenue, rates, rate design, and service charges proposed will not yield to Atmos more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by Tex. Util. Code § 104.052.

10. The rates established in this docket comport with the requirements of Tex. Util. Code § 104.053 and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost less depreciation and current cost less an adjustment for present age and condition.

11. The test-year level of pension-related and other post-employment benefits expenses are consistent with Tex. Util. Code § 104.055.

12. The rates established in this case comply with the affiliate transaction standard set out in Tex. Util. Code § 104.055.

13. Atmos has complied with all requirements set forth in the February 2018 Gas Utilities Accounting Order in GUD No. 10695, and the related March 2018 Order Nunc Pro Tunc.

14. Capital investment made through December 31, 2017, was reasonable and prudent and consistent with Tex. Util. Code, Chapter 104.

15. A rate of return of 7.97 percent based on Atmos's weighted average cost of capital, including the components specified in this Order, is consistent with the requirements of Tex. Util. Code § 104.052.

16. An overall base revenue requirement of $2,160,494 for the Affected Cities and a system-wide base revenue requirement of $594,158,976 is just and reasonable for the Mid-Tex Division, and permits Atmos a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.

17. In accordance with 16 Tex. Admin. Code § 7.7101, Atmos may adjust its revenue in future Interim Rate Adjustment filings as set forth in the findings of fact.

18. The rate schedules and tariffs established in this Order reflect ratemaking actions the Affected Cities should have set in their ordinances, consistent with Tex. Util. Code § 103.055.

19. The rate schedules and tariffs reflected in this Order are consistent with applicable statutory and Commission requirements.

20. Atmos is required by 16 Tex. Admin. Code § 7.315 to file electronic tariffs incorporating rates consistent with this Order within 30 days of the date of this Order.

IT IS THEREFORE ORDERED that the proposed schedule of rates under the terms of this Order and the Partial Settlement is hereby **APPROVED**.

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact, conclusions of law, and as shown on the attached tariffs for Atmos are **APPROVED**.

IT IS FURTHER ORDERED that the factors established in the findings of fact for future Interim Rate Adjustments are **APPROVED**.

IT IS FURTHER ORDERED that the Partial Settlement appended to this Order as Attachment 1 is hereby **APPROVED**.

IT IS FURTHER ORDERED that within thirty (30) days of this Order in accordance with 16 Tex. Admin. Code § 7.315, Atmos shall electronically file its rate schedules in proper form that accurately reflect the rates approved in this Order.

IT IS FURTHER ORDERED that any incremental change in rates approved by this Order and implemented by Atmos shall be subject to refund unless and until Atmos's tariffs are electronically filed and accepted by the Gas Services Department in accordance with 16 Tex. Admin. Code § 7.315.

IT IS FURTHER ORDERED that all proposed findings of act and conclusions of law not specifically adopted in this Order are hereby **DENIED**.

IT IS FURTHER ORDERED that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED**.

IT IS FURTHER ORDERED that this Order will not be final and effective until 25 days after the date this Order is signed. If a timely motion for rehearing is filed by any party of interest, this Order shall not become final and effective until such motion is overruled, or if such motion is granted, this Order shall be subject to further action by the Commission. The time allotted for commission action on a motion for rehearing in this case prior to its being overruled by operation of law is hereby extended until 100 days from the date this Order is signed.

Signed on May 21, 2019.

RAILROAD COMMISSION OF TEXAS

Christi Craddick
CHAIRMAN CHRISTI CRADDICK

COMMISSIONER RYAN SITTON

COMMISSIONER WAYNE CHRISTIAN

ATTEST:

Kathy Way
SECRETARY

Final Order
GUD No. 10779

<u>ATTACHMENT 1</u>

Settlement Agreement

GUD NO. 10779 (Consolidated)

PETITION FOR DE NOVO REVIEW OF THE DENIAL OF THE STATEMENT OF INTENT FILED BY ATMOS ENERGY CORP., MID-TEX DIVISION BY THE CITIES OF BALCH SPRINGS, BANDERA, BELTON, ET AL.	§ § § § § §	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

SETTLEMENT AGREEMENT ON REVENUE REQUIREMENT AND <u>IDENTIFICATION OF SOLE ISSUE REMAINING IN DISPUTE</u>

This Settlement Agreement regarding the revenue requirement to be used to determine new rates and the identification of the sole issue remaining in dispute is entered into by and between Atmos Energy Corp., Mid-Tex Division ("Atmos Energy" or the "Company") and the Atmos Texas Municipalities ("ATM"), (collectively, the "Signatories").

WHEREAS, Atmos Energy filed its municipal Statement of Intent with all cities participating in the ATM Coalition on June 1, 2018, with the exception of the City of Hico, where the Statement of Intent was filed on July 31, 2018; and

WHEREAS, Atmos Energy subsequently appealed these municipal rate decisions with the Railroad Commission of Texas ("Commission") pursuant to Tex. Util. Code § 103.054; and

WHEREAS, the Commission docketed these appeals as GUD No. 10779 (consolidated); and

WHEREAS ATM sought intervention and was granted party status in GUD No. 10779; and

WHEREAS, the Company has filed direct and rebuttal testimony and errata to its Statement of Intent; and

WHEREAS, the Signatories have engaged in discovery regarding the issues in dispute; and

WHEREAS, ATM filed direct testimony on January 14, 2018; and

WHEREAS, the Signatories agree that resolution of the revenue requirement to be used to determine new rates and their agreement regarding the sole issue remaining in dispute will significantly reduce the amount of reimbursable rate case expenses associated with this docket;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree as follows:

Settlement Terms

1. As a product of compromise and for the purposes of settlement, the Signatories agree to fully litigate whether short-term debt should be included or excluded from the Company's capital structure for purposes of establishing Atmos Energy's revenue requirement and corresponding new rates in this proceeding.

2. The Signatories agree that in the event that the Commission adopts the Company's proposed capital structure comprised of 60.18% equity and 39.82% long-term debt, the annual system-wide base rate revenue requirement – excluding "Other Revenue" shown in Schedule A – of $594,158,976 should be adopted. This results in an increase to Atmos Energy's system-wide base rate revenues of $23,358,519, excluding revenue from Rider FF and Rider Tax or $24,901,124 including revenue from Rider FF and Rider Tax.

3. Signatories further agree that the rates resulting from the Paragraph 2 revenue requirement and capital structure are shown below and in the tariffs included as Exhibit A:

	Customer Charge	**Consumption Charge**	
Residential	$18.85	$0.14846	
Commercial	$43.50	$0.09165	
I&T	$784.00	$0.3312	0 to 1,500 MMBtu
		$0.2425	Next 3,500 MMBtu
		$0.0520	Over 5,000 MMBtu

4. The Signatories agree that a Commission decision to include short-term debt in Atmos Energy's capital structure would modify the base rate revenue requirement of $594,158,976 and the $23,358,519 system-wide increase set forth in Paragraph 2 and the corresponding rates shown in Paragraph 3. The Signatories further agree that the annual revenue requirement difference associated with any Commission decision to include short-term debt in Atmos Energy's capital structure will be allocated proportionately to customer classes and rate components.

5. The Signatories agree that rates adopted as part of the Commission's Final Order in this proceeding should be effective for bills rendered on and after June 1, 2019.

6. The Signatories agree that it is reasonable to adopt a 9.8% return on equity regardless of the Commission's decision on whether to include short-term debt in Atmos Energy's capital structure.

7. The Signatories agree that, if the Commission adopts the Company's proposed capital structure comprised of 60.18% equity and 39.82% long-term debt, Rate of Return (ROR) and capital structure for purposes of future Interim Rate Adjustment (IRA) filings should be established as follows:

Class of Capital	Percent	Cost	Weighted Average Cost of Capital	Pre-Tax Return (ROR)
Long Term Debt	39.82%	5.2%	2.07%	2.07%
Common Equity	60.18%	9.8%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

8. The Signatories agree that a Commission decision to include short-term debt would modify the components shown in the table above, by adding as an element Short Term Debt and modifying the other elements including the Capital Structure, the Weighted Average Cost of Capital, and ROR. Return on equity would, however, remain unchanged.

9. The Signatories further agree that any IRA filing made with the ATM cities pursuant to Texas Utilities Code § 104.301 shall use the following additional factors until changed by a subsequent general rate proceeding:

a. For any initial IRA filing, the beginning ad valorem tax rate at a Mid-Tex Division level is 1.18% and the Shared Services Ad Valorem Tax Rate is 0.69%. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.

b. For any initial IRA filing, the system-wide net plant in service amount in the Mid-Tex Division shall be $3,209,005,831 as presented in Exhibit B.

c. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10170 as presented in Exhibit B.

d. For any initial IRA filing, the customer charges and consumption charges as shown in Paragraph 3 or as modified by Paragraph 4 above will be the starting rates to which any IRA adjustment is applied.

e. Federal income taxes will be calculated using a 21% rate, unless the federal income tax rate changes, in which case the new rate will be applied.

f. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	Percentage
Rate R – Residential Sales	77.95%
Rate C – Commercial Sales	19.40%
Rate I & T – Industrial/Transportation Sales	2.65%

10. The Signatories agree that the rates, terms and conditions resulting from a Commission Final Order issued consistent with the terms of this Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code.

11. Signatories agree that the revenue requirement in paragraph 1 includes expenses associated with services acquired by Blueflame, a wholly-owned subsidiary of Atmos Energy that provides insurance for all of the Company's divisions. Signatories further agree that system-wide expenses in the amount of $453,877 associated with services acquired by Blueflame are (a) reasonable and necessary and (b) the price charged to Atmos Energy's Mid-Tex Division is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a non-affiliated person for the same item or class of items as required by Tex. Util. Code § 104.055(b)(1).

12. The Signatories agree that the following amounts are reasonable to establish the base-year levels to track changes in pension-related and other post-employment benefits:

Entity	Pension Account Plan	Post-Employment Benefit Plan	Supplemental Executive Benefit Plan	Total
SSU Allocated to Mid-Tex	$1,425,108	$943,775	$ 0	$2,368,883
Mid-Tex Direct	$1,987,133	$1,062,621	$35,837	$3,085,591
Total	**$3,412,241**	**$2,006,396**	**$35,837**	**$5,454,474**

13. The Signatories agree that the revenue requirement in Paragraph 1 includes a reduction of the corporate income tax rate from 35% to 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017.

The Signatories further agree that the revenue requirement in Paragraph 1 reflects an adjustment to federal income tax expense for excess deferred income taxes (EDIT) resulting from the Tax Cuts and Jobs Act of 2017. The EDIT adjustment has been computed based on the Reverse South Georgia Method for those amounts required under Internal Revenue Service (IRS) normalization rules.

Signatories agree that it is reasonable to amortize the Company's protected EDIT liabilities over a 24 year period as determined by the RSG method and shown on Exhibit C. The Signatories further agree that the Company's unprotected EDIT should be amortized over the same 24 year period as shown on Exhibit C.

14. Unless otherwise agreed to by Atmos Energy and ATM, the Signatories agree that the recovery of reasonable rate case expenses will be addressed in GUD No. 10796.

15. The classes and number of customers affected by this Settlement Agreement include approximately 152,734 residential, 10,871 commercial, and 72 industrial and transportation customers.

16. The Signatories agree to support and seek Commission approval of the terms outlined in this Settlement Agreement and make all efforts to enable new rates to be effective for bills rendered on and after June 1, 2019.

17. The Signatories agree to support and seek Commission approval to establish temporary rates for the period March 1, 2019 through May 31, 2019. Signatories further agree that these temporary rates shall not be subject to true up.

18. Except as may be allowed under Rule 408 of the Texas Rules of Evidence, the Signatories agree that all negotiations, discussions, and conferences related to the Settlement Agreement are privileged and inadmissible to prove the validity or invalidity of any issue raised by or presented in GUD No. 10779.

19. The Signatories agree that neither this Settlement Agreement nor any oral or written statements made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the Commission of an order approving this Settlement Agreement.

20. The Signatories agree that the terms of the Settlement Agreement are interdependent and indivisible, and that if the Commission intends to enter an order that is inconsistent with this Settlement Agreement, then any Signatory may withdraw without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Settlement Agreement or its subsequent withdrawal and further agrees that Atmos Energy's application to increase rates will be remanded for hearings.

21. The Signatories agree that this Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes. The matters resolved herein are resolved on the basis of a compromise and settlement. Except to the extent the Settlement Agreement governs a Signatory's rights and obligations for future periods, this Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding. Each Signatory acknowledges that a Signatory's support of the matters contained in this Stipulation may differ from the position taken or testimony presented by it in other dockets or other jurisdictions. To the extent that there is a difference, a Signatory does not waive its position in any of those other dockets or jurisdictions. Because this is a stipulated resolution, no Signatory is under any obligation to take the same positions as set out in this Stipulation in other dockets or jurisdictions, regardless of whether other dockets present the same or a different set of circumstances, except as otherwise may be explicitly provided by this Stipulation. Agreement by the Signatories to any provision in this Stipulation will not be used against any Signatory in any future proceeding with respect to different positions that may be taken by that Signatory.

22. The provisions of this Stipulation are intended to relate to only the specific matters referred to herein. By agreeing to this Stipulation, no Signatory waives any claim it may otherwise have with respect to issues not expressly provided for herein. The Signatories further

understand and agree that this Stipulation represents a negotiated settlement of all issues in this proceeding.

23. The Signatories agree that this Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 22ND day of February 2019.

ATMOS ENERGY CORP., MID-TEX DIVISION

By: ______________________
Ann M. Coffin
Attorney for Atmos Energy Corp., Mid-Tex Division

COUNSEL FOR THE ATMOS TEXAS MUNICIPALITIES

By: ______________________
Alfred R. Herrera
Attorney for the Atmos Texas Municipalities

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**R – RESIDENTIAL SALES**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
EFFECTIVE DATE:	**Bills Rendered on or after 06/01/2019**	**PAGE:**

Application
Applicable to Residential Customers for all natural gas provided at one Point of Delivery and measured through one meter.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's monthly bill will be calculated by adding the following Customer and Ccf charges to the amounts due under the riders listed below:

Charge	Amount
Customer Charge per Bill	$ 18.85 per month
Rider CEE Surcharge	$ 0.03 per month[1]
Total Customer Charge	$ 18.88 per month
Commodity Charge – All Ccf	$0.14846 per Ccf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Weather Normalization Adjustment: Plus or Minus an amount for weather normalization calculated in accordance with Rider WNA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Rider FF is only applicable to customers inside the corporate limits of any incorporated municipality.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement
An Agreement for Gas Service may be required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

[1]Reference Rider CEE - Conservation and Energy Efficiency as approved in GUD 10170. Surcharge billing effective July 1, 2018.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**R – RESIDENTIAL SALES**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
EFFECTIVE DATE:	**Bills Rendered on or after 06/01/2019**	**PAGE:**

Exhibit A

Cities in the Atmos Texas Municipalities Coalition:

AUSTIN
BALCH SPRINGS
BANDERA
BELTON
BLOOMING GROVE
BURNET
CAMERON
CEDAR PARK
CLIFTON
COMMERCE
COPPERAS COVE
CORSICANA
ELECTRA
FREDERICKSBURG
GATESVILLE
GOLDTHWAITE
GRANBURY
GREENVILLE
GROESBECK
HAMILTON
HEATH
HENRIETTA
HICKORY CREEK
HICO
HILLSBORO
LAMPASAS
LEANDER
LONGVIEW
MARBLE FALLS
MART
MEXIA
OLNEY
PFLUGERVILLE
POINT
PRINCETON
RANGER
RICE
RIESEL
ROCKDALE
ROGERS
ROUND ROCK
SAN ANGELO
SANGER
SOMERVILLE
STAR HARBOR
TRINIDAD
WHITNEY

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**C – COMMERCIAL SALES**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
EFFECTIVE DATE:	**Bills Rendered on or after 06/01/2019**	**PAGE:**

Application
Applicable to Commercial Customers for all natural gas provided at one Point of Delivery and measured through one meter and to Industrial Customers with an average annual usage of less than 30,000 Ccf.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's monthly bill will be calculated by adding the following Customer and Ccf charges to the amounts due under the riders listed below:

Charge	**Amount**
Customer Charge per Bill	$ 43.50 per month
Rider CEE Surcharge	$ (0.03) per month[1]
Total Customer Charge	$ 43.47 per month
Commodity Charge – All Ccf	$ 0.09165 per Ccf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Weather Normalization Adjustment: Plus or Minus an amount for weather normalization calculated in accordance with Rider WNA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Rider FF is only applicable to customers inside the corporate limits of any incorporated municipality.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement
An Agreement for Gas Service may be required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

[1] Reference Rider CEE - Conservation and Energy Efficiency as approved in GUD 10170. Surcharge billing effective July 1, 2018.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**C – COMMERCIAL SALES**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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RICE
RIESEL
ROCKDALE
ROGERS
ROUND ROCK
SAN ANGELO
SANGER
SOMERVILLE
STAR HARBOR
TRINIDAD
WHITNEY

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**I – INDUSTRIAL SALES**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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Application
Applicable to Industrial Customers with a maximum daily usage (MDU) of less than 3,500 MMBtu per day for all natural gas provided at one Point of Delivery and measured through one meter. Service for Industrial Customers with an MDU equal to or greater than 3,500 MMBtu per day will be provided at Company's sole option and will require special contract arrangements between Company and Customer.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's monthly bill will be calculated by adding the following Customer and MMBtu charges to the amounts due under the riders listed below:

Charge	Amount
Customer Charge per Meter	$ 784.00 per month
First 0 MMBtu to 1,500 MMBtu	$ 0.3312 per MMBtu
Next 3,500 MMBtu	$ 0.2425 per MMBtu
All MMBtu over 5,000 MMBtu	$ 0.0520 per MMBtu

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Rider FF is only applicable to customers inside the corporate limits of any incorporated municipality.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Curtailment Overpull Fee
Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

Replacement Index
In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**I – INDUSTRIAL SALES**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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Agreement
An Agreement for Gas Service may be required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions
In order to receive service under Rate I, Customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**I – INDUSTRIAL SALES**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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WHITNEY

MID-TEX DIVISION **RRC Tariff No:**
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**T – TRANSPORTATION**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
EFFECTIVE DATE:	**Bills Rendered on or after 06/01/2019**	**PAGE:**

Application
Applicable, in the event that Company has entered into a Transportation Agreement, to a customer directly connected to the Atmos Energy Corp., Mid-Tex Division Distribution System (Customer) for the transportation of all natural gas supplied by Customer or Customer's agent at one Point of Delivery for use in Customer's facility.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's bill will be calculated by adding the following Customer and MMBtu charges to the amounts and quantities due under the riders listed below:

Charge	Amount
Customer Charge per Meter	$ 784.00 per month
First 0 MMBtu to 1,500 MMBtu	$ 0.3312 per MMBtu
Next 3,500 MMBtu	$ 0.2425 per MMBtu
All MMBtu over 5,000 MMBtu	$ 0.0520 per MMBtu

Upstream Transportation Cost Recovery: Plus an amount for upstream transportation costs in accordance with Part (b) of Rider GCR.

Retention Adjustment: Plus a quantity of gas as calculated in accordance with Rider RA.

Franchise Fee Adjustment: Plus an amount for franchise fees calculated in accordance with Rider FF. Rider FF is only applicable to customers inside the corporate limits of any incorporated municipality.

Tax Adjustment: Plus an amount for tax calculated in accordance with Rider TAX.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Imbalance Fees
All fees charged to Customer under this Rate Schedule will be charged based on the quantities determined under the applicable Transportation Agreement and quantities will not be aggregated for any Customer with multiple Transportation Agreements for the purposes of such fees.

Monthly Imbalance Fees
Customer shall pay Company the greater of (i) $0.10 per MMBtu, or (ii) 150% of the difference per MMBtu between the highest and lowest "midpoint" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" during such month, for the MMBtu of Customer's monthly Cumulative Imbalance, as defined in the applicable Transportation Agreement, at the end of each month that exceeds 10% of Customer's receipt quantities for the month.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**T – TRANSPORTATION**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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Curtailment Overpull Fee
Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

Replacement Index
In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement
A transportation agreement is required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions
In order to receive service under Rate T, customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**T – TRANSPORTATION**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RIDER:	**SUR – SURCHARGES**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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Application

The Rate Case Expense Surcharge (RCE) rate as set forth below is pursuant to the Final Order in GUD No. 10779. This monthly rate shall apply to residential, commercial, industrial and transportation rate classes of Atmos Energy Corporation's Mid-Tex Division in the rate area and amounts shown below. The fixed-price surcharge rate will be in effect for approximately 12 months until all approved and expended rate case expenses are recovered from the applicable customer classes as documented in the Final Order in GUD No. 10779. This rider is subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority. This surcharge is for city rate case expenses incurred to review the 2016 Rate Review Mechanism.

Monthly Calculation

Surcharges will be the fixed-price rate shown in the table below:

Rate Schedule	ATM Coalition
R – Residential Sales	$0.04
C – Commercial Sales	$0.10
I – Industrial Sales	$1.93
T - Transportation	$1.93

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RIDER:	**WNA – WEATHER NORMALIZATION ADJUSTMENT**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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Provisions for Adjustment

The Commodity Charge per Ccf (100 cubic feet) for gas service set forth in any Rate Schedules utilized by the cities of the Mid-Tex Division service area for determining normalized winter period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment." The Weather Normalization Adjustment shall apply to all temperature sensitive residential and commercial bills based on meters read during the revenue months of November through April. The five regional weather stations are Abilene, Austin, Dallas, Waco, and Wichita Falls.

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment Factor shall be computed to the nearest one-hundredth cent per Ccf by the following formula:

$$WNAF_i = R_i \quad \frac{(HSF_i \times (NDD-ADD))}{(BL_i + (HSF_i \times ADD))}$$

Where

i	=	any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification
$WNAF_i$	=	Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per Ccf
R_i	=	Commodity Charge rate of temperature sensitive sales for the i^{th} schedule or classification.
HSF_i	=	heat sensitive factor for the i^{th} schedule or classification divided by the average bill count in that class
NDD	=	billing cycle normal heating degree days calculated as the simple ten-year average of actual heating degree days.
ADD	=	billing cycle actual heating degree days.
Bl_i	=	base load sales for the i^{th} schedule or classification divided by the average bill count in that class

The Weather Normalization Adjustment for the jth customer in ith rate schedule is computed as:

$WNA_i =$ $WNAF_i \times q_{ij}$

Where q_{ij} is the relevant sales quantity for the jth customer in ith rate schedule.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RIDER:	**WNA – WEATHER NORMALIZATION ADJUSTMENT**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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Base Use/Heat Use Factors

	Residential		Commercial	
Weather Station	Base use Ccf	Heat use Ccf/HDD	Base use Ccf	Heat use Ccf/HDD
Abilene	9.77	0.1201	99.33	0.5737
Austin	10.38	0.1493	201.46	0.8942
Dallas	13.17	0.2062	183.71	1.0046
Waco	9.26	0.1323	124.57	0.6398
Wichita Falls	11.62	0.1278	114.97	0.5226

Weather Normalization Adjustment (WNA) Report

On or before June 1 of each year, the company posts on its website at atmosenergy.com/mtx-wna, in Excel format, a *Weather Normalization Adjustment (WNA) Report* to show how the company calculated its WNAs factor during the preceding winter season. Additionally, on or before June 1 of each year, the company files one hard copy and an Excel version of the *WNA Report* with the Railroad Commission of Texas' Gas Services Division, addressed to the Director of that Division.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RIDER:	**WNA – WEATHER NORMALIZATION ADJUSTMENT**	
APPLICABLE TO:	**ALL CUSTOMERS IN THE MID-TEX DIVISION IN THE ATMOS TEXAS MUNICIPALITIES COALITION ("ATM")**	
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ATMOS ENERGY CORP., MID-TEX DIVISION
NET INVESTMENT AND RATE BASE ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Acct.	Description	Plant Balances	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c)-(d)	(f)
1	Mid-Tex:					
2	Distribution Plant					
3	374	Land	$ 969,751	$ 90	$ 969,661	0.00%
4	374	Land Rights	3,436,235	1,496,141	1,940,094	0.98%
5	375	Structures & Improvements	1,593,440	1,000,412	593,028	1.71%
6	376	Mains-Cathodic Protection	176,245,240	48,934,906	127,310,335	1.85%
7	376	Mains-Steel	623,552,746	211,431,541	412,121,205	3.97%
8	376	Mains-Plastic	1,617,624,079	430,076,650	1,187,547,429	2.21%
9	378	M&R Station Equipment - General	72,217,273	24,532,123	47,685,150	3.09%
10	379	M&R Station Equipment - City Gate	5,737,696	3,197,871	2,539,825	1.88%
11	380	Services	1,263,784,834	382,969,832	880,815,002	3.67%
12	381	Meters	269,036,417	64,015,902	205,020,515	3.31%
13	382	Meter Installations	124,150,788	34,256,337	89,894,450	3.66%
14	383	House Regulators	92,306,262	21,942,045	70,364,218	3.50%
15	385	Industrial M&R Station Equipment	2,777,560	327,091	2,450,469	2.80%
16		Total Mid-Tex Distribution Plant (Sum of Ln 3 through Ln 15)	$ 4,253,432,321	$ 1,224,180,940	$ 3,029,251,381	
17						
18	General Plant					
19	302	Franchises & Consents	$ 18,896	$ 7,231	$ 11,665	0.00%
20	303	Computer Software	709,231	797,603	(88,372)	0.00%
21	389	Land	5,141,158	114	5,141,045	0.00%
22	390	Structures & Improvements	58,308,484	15,275,690	43,032,795	2.54%
23	390	Air Conditioning Equipment	323,282	52,729	270,553	2.75%
24	391	Office Furniture & Equipment	10,681,124	959,242	9,721,882	4.00%
25	392	Transportation Equipment	1,744,975	725,919	1,019,056	9.04%
26	393	Stores Equipment	102,553	23,454	79,098	4.00%
27	394	Tools, Shop, and Garage Equipment	23,058,833	6,393,734	16,665,100	5.00%
28	395	Laboratory Equipment	361,884	208,926	152,958	10.00%
29	396	Power Oper. Tool & Work Equipment	1,903,358	676,434	1,226,924	7.24%
30	397	Radio Communication Equipment	5,675,755	3,771,085	1,904,669	6.67%
31	398	Miscellaneous Equipment	1,879,501	794,182	1,085,319	2.50%
32	399	Other Tangible Property	341,848	136,991	204,857	14.29%
33	399.01	Other Tangible Property-Servers Hardware	80,686	80,686	-	14.29%
34	399.02	Other Tangible Property-Servers Software	258,852	72,896	185,956	14.29%
35	399.03	Other Tangible Property-Network-Hardware	1,404,540	491,188	913,351	11.11%
36	399.06	Other Tangible Property-PC Hardware	11,980,671	5,707,220	6,273,451	14.29%
37	399.07	Other Tangible Property-PC Software	701,337	501,919	199,418	14.29%
38	399.08	Other Tangible Property-Application Software	5,588,144	3,159,690	2,428,454	14.29%
39	RWIP	Retirement Work in Progress		(1,579,392)	1,579,392	
40		Total Mid-Tex General Plant (Sum of Ln 19 through Ln 39)	$ 130,265,112	$ 38,257,542	$ 92,007,570	
41						
42		Total Mid-Tex Direct Plant (Ln 16 plus Ln 40)	$ 4,383,697,434	$ 1,262,438,482	$ 3,121,258,952	
43						

44						
45	SSU - Customer Support (Div 012):					
46	General Plant					
47	389	Land & Land Rights	$ 1,498,341	$ 846,360	$ 651,981	0.00%
48	390	Structures & Improvements	6,604,351	831,470	5,772,881	3.34%
49	390.09	Improvements to Leased Premises	1,470,386	399,157	1,071,228	4.06%
50	391	Office Furniture & Equipment	1,213,850	510,591	703,259	4.03%
51	397	Communication Equipment - Telephone	997,308	5,682	991,626	5.54%
52	398	Miscellaneous Equipment	36,499	217,854	(181,355)	1.72%
53	399	Other Tangible Property	327,984	2,257,878	(1,929,894)	13.84%
54	399.01	Other Tangible Property-Servers Hardware	5,391,936	552,182	4,839,754	8.62%
55	399.02	Other Tangible Property-Servers Software	1,055,078	170,113	884,965	8.78%
56	399.03	Other Tangible Property-Network-Hardware	328,015	252,300	75,715	8.72%
57	399.06	Other Tangible Property-PC Hardware	521,209	64,976	456,233	8.78%
58	399.07	Other Tangible Property-PC Software	99,176	13,539,253	(13,440,077)	6.64%
59	399.08	Other Tangible Property-Application Software	46,987,217	-	46,987,217	6.57%
60		Total SSU Customer Support (Sum of Ln 47 through Ln 59)	$ 66,531,351	$ 19,647,815	$ 46,883,535	
61						
62						
63	SSU - Customer Support (Div 012):					
64	General Plant					
65	Charles K. Vaughn Center					
66	389.10	Land & Land Rights	$ 1,442,551	$ -	$ 1,442,551	0.00%
67	390.10	Structures & Improvements	9,410,198	1,956,188	7,454,010	3.34%
68	391.10	Office Furniture & Equipment	291,181	24,703	266,478	4.03%
69	392.10	Transportation Equipment	73,633	70,406	3,226	28.96%
70	394.10	Tools, Shop, and Garage Equipment	307,542	66,306	241,236	8.88%
71	395.10	Laboratory Equipment	18,071	10,867	7,204	10.00%
72	397.10	Communication Equipment	222,909	109,337	113,571	5.54%
73	398.10	Miscellaneous Equipment	389,445	99,600	289,845	1.72%
74	399.10	Other Tangible Equipment	259,734	100,214	159,520	13.84%
75	399.16	PC Hardware	196,746	172,014	24,732	8.78%
76	399.17	PC Software	79,445	53,254	26,192	6.64%
77	399.18	Other Tangible Property	15,722	7,417	8,305	15.89%
78		Total SSU CKV Center (Sum of Ln 66 through Ln 77)	$ 12,707,179	$ 2,670,308	$ 10,036,870	
79						
80						
81	SSU - General Office (Div 002):					
82	General Plant					
83	390	Structures & Improvements	$ 539,292	$ 179,862	$ 359,430	3.34%
84	390	Improvements to Leased Premises	3,323,586	3,346,088	(22,502)	4.06%
85	391	Office Furniture & Equipment	1,786,133	622,890	1,163,243	4.03%
86	392	Transportation Equipment	2,723	1,941	782	28.96%
87	393	Stores Equipment	-	-	-	10.00%
88	394	Tools & Work Equipment	29,067	11,269	17,798	8.88%
89	395	Laboratory Equipment	-	-	-	10.00%
90	397	Communication Equipment - Telephone	397,133	193,186	203,947	5.54%
91	398	Miscellaneous Equipment	52,160	16,313	35,847	1.72%
92	399	Other Tangible Property	62,003	62,044	(42)	13.84%
93	399.01	Other Tangible Property-Servers Hardware	14,122,193	7,569,076	6,553,117	8.62%
94	399.02	Other Tangible Property-Servers Software	7,262,029	6,345,288	916,742	8.78%
95	399.03	Other Tangible Property-Network-Hardware	1,356,055	914,075	441,980	8.72%
96	399.06	Other Tangible Property-PC Hardware	939,219	379,417	559,801	8.78%
97	399.07	Other Tangible Property-PC Software	562,935	76,217	486,718	6.64%
98	399.08	Other Tangible Property-Application Software	25,355,009	11,717,687	13,637,323	6.57%
99	399.09	Other Tangible Property-System Software	14,998	16,611	(1,613)	6.21%
100		Retirement Work in Progress	-	-	-	
101		Total SSU General Plant (Sum of Ln 83 through Ln 100)	$ 55,804,535	$ 31,451,963	$ 24,352,572	
102						

103						
104	SSU - General Office (Div 002):					
105	General Plant					
106	Greenville Data Center (010.11520)					
107	390.05	G-Structures & Improvements	$ 1,281,518	$ 483,815	$ 797,704	3.34%
108	391.04	G-Office Furniture & Equip.	8,891	4,213	4,678	4.03%
109		Total SSU Greenville Data Center (Sum of Ln 107 through Ln 108)	$ 1,290,410	$ 488,028	$ 802,382	
110						
111						
112	SSU - General Office (Div 002):					
113	General Plant					
114	Distribution and Marketing					
115	391.20	Office Furniture & Equipment-AEAM	$ 89,351	$ 37,968	$ 51,383	4.03%
116	394.20	Tools & Work Equipment-AEAM	-	184	(184)	8.88%
117	397.20	Communication Equipment-AEAM	4,192	1,672	2,520	5.54%
118	398.20	Miscellaneous Equipment-AEAM	3,510	335	3,175	1.72%
119	399.21	Other Tangible Property-Servers Hardware-AEAM	773,890	521,281	252,609	8.62%
120	399.22	Other Tangible Property-Servers Software-AEAM	456,693	204,582	252,111	8.78%
121	399.23	Other Tangible Property-Network-Hardware-AEAM	28,587	19,628	8,959	8.72%
122	399.26	Other Tangible Property-PC Hardware-AEAM	149,362	19,285	130,076	8.78%
123	399.28	Other Tangible Property-Application Software-AEAM	9,330,573	5,329,213	4,001,360	6.57%
124		Total SSU Distribution & Marketing (Sum of Ln 115 through Ln 123)	$ 10,836,158	$ 6,134,149	$ 4,702,008	
125						
126						
127	SSU - General Office (Div 002):					
128	General Plant					
129	Align Pipe Projects					
130	399.31	Other Tangible Property-Servers Hardware-Align	$ 19,022	$ 2,529	$ 16,493	8.62%
131	399.32	Other Tangible Property-Servers Software-Align	22,123	2,110	20,013	8.78%
132	399.38	Other Tangible Property-Application Software-Align	1,120,918	187,912	933,006	6.57%
133		Total SSU Align Pipe Projects (Sum of Ln 130 through Ln 132)	$ 1,162,063	$ 192,551	$ 969,512	
134						
136						
137		Total Allocated SSU Plant (Ln 60, 78, 101, 109, 124, 133)	$ 148,331,695	$ 60,584,815	$ 87,746,880	
138						
139		Total Mid-Tex Net Plant (Ln 42 plus Ln 137)	$ 4,532,029,129	$ 1,323,023,298	$ 3,209,005,831	
140						
141		Rate Base Adjustments			$ 11,532,315	

ATMOS ENERGY CORP., MID-TEX DIVISION
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description		Amount	Reference
	(a)		(b)	(c)
1	Net Investment:			
2	Gross Plant - Direct	$	4,383,697,434	Schedule C
3	Accumulated Depreciation - Direct		1,262,438,482	Schedule D
4	Gross Plant - Allocated		148,331,695	Schedule C
5	Accumulated Depreciation - Allocated		60,584,816	Schedule D
6	Total Net Investment	$	3,209,005,831	Line 6 = (Line 2 - Line 3 + Line 4 - Line 5)
7				
8	Rate Base Adjustments	$	11,532,315	Schedule B

ATMOS ENERGY CORP., MID-TEX DIVISION
RATE BASE ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2017
AMORTIZATION OF REGULATORY LIABILITY

Line No.	Year Ended Dec. 31	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount	Balance as of December 31, 2017
	(a)	(b)	(c)	(d)	(e)
1	2017 (2)			$ 290,043,948	$ 290,043,948
2	2018	$ 290,043,948	$ 12,085,165	277,958,784	
3	2019	277,958,784	12,085,165	265,873,619	
4	2020	265,873,619	12,085,165	253,788,455	
5	2021	253,788,455	12,085,165	241,703,290	
6	2022	241,703,290	12,085,165	229,618,126	
7	2023	229,618,126	12,085,165	217,532,961	
8	2024	217,532,961	12,085,165	205,447,797	
9	2025	205,447,797	12,085,165	193,362,632	
10	2026	193,362,632	12,085,165	181,277,468	
11	2027	181,277,468	12,085,165	169,192,303	
12	2028	169,192,303	12,085,165	157,107,139	
13	2029	157,107,139	12,085,165	145,021,974	
14	2030	145,021,974	12,085,165	132,936,810	
15	2031	132,936,810	12,085,165	120,851,645	
16	2032	120,851,645	12,085,165	108,766,481	
17	2033	108,766,481	12,085,165	96,681,316	
18	2034	96,681,316	12,085,165	84,596,152	
19	2035	84,596,152	12,085,165	72,510,987	
20	2036	72,510,987	12,085,165	60,425,823	
21	2037	60,425,823	12,085,165	48,340,658	
22	2038	48,340,658	12,085,165	36,255,494	
23	2039	36,255,494	12,085,165	24,170,329	
24	2040	24,170,329	12,085,165	12,085,165	
25	2041	12,085,165	12,085,165	(0)	
26					
27	Revenue Related Tax Factor		6.60%	See WP_F-5.1	
28	Revenue Related Taxes on Annual Amortization		$ 798,108	Amortization * Tax Factor	
29	Amortization Including Revenue Related Taxes		$ 12,883,272	Amortization + Taxes	
30					
31	Note:				
32	1. The annual amortization of a 24 year recovery period is based on the				
33	Reverse South Georgia Method.				
34	2. The 2017 balance has been revised to include a known and measurable adjustment to update the balance to September 30, 2018.				

GUD NO. 10742

STATEMENT OF INTENT FILED BY	**§**	**BEFORE THE**
ATMOS ENERGY CORP. TO CHANGE	**§**	
GAS UTILITY RATES WITHIN THE	**§**	**RAILROAD COMMISSION**
UNINCORPORATED AREAS SERVED	**§**	
BY ITS MID-TEX DIVISION	**§**	**OF TEXAS**

FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to Tex. Gov't Code Chapter 551, *et seq*. (West 2017 & Supp. 2018). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Atmos Energy Corp., Mid-Tex Division ("Atmos") is a gas utility as that term is defined in the Texas Utilities Code and is subject to the jurisdiction of the Railroad Commission of Texas ("Commission").

2. On June 29, 2018, Atmos Energy filed a Statement of Intent to Change Gas Utility Rates within the Unincorporated Areas of its Mid-Tex Division (the "SOI") with the Commission. That filing was docketed as GUD No. 10742.

3. On August 21, 2018, the Commission timely suspended the implementation of Atmos's proposed rates for 150 days.

4. For all customers located in unincorporated or environs areas, Atmos timely provided direct mail notice of its SOI to all affected customers in accordance with Tex. Util. Code § 104.103(a) (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.230 and 7.235 (2018).

5. The publication of notice meets the statutory and rule requirements of notice and provides sufficient information to ratepayers about the proposed rate change in the SOI, in accordance with Tex. Util. Code § 104.103(a) (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.230 and 7.235 (2018).

6. On July 5, 2018, Staff of the Railroad Commission ("Staff") moved to intervene, and the motion was granted.

7. On August 27, 2018, the Atmos Texas Municipalities ("ATM") moved to intervene. The motion, opposed by Atmos, was denied.

8. On September 13, 2018, Atmos notified the Administrative Law Judge ("ALJ") that the parties had reached a settlement in principle and requested an abatement of Staff's testimony deadline. The motion was granted.

9. On October 5, 2018, the parties filed a Unanimous Settlement Agreement (the "Settlement"), which resolved all issues among the parties.

10. Atmos established that it maintains its books and records in accordance with the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("USOA") prescribed for natural gas companies.

11. Atmos established that it has complied with the books and records requirements of Commission Rule § 7.310, and therefore the amounts included therein are entitled to the presumption in Commission Rule § 7.503 that these amounts are reasonable and necessary.

12. The test-year in this filing is based upon the financial data for the twelve-month period ending December 31, 2017, adjusted for known and measurable changes.

13. In its SOI, Atmos initially requested an apportioned revenue requirement decrease of approximately $1,998,597 for the unincorporated areas of the Mid-Tex Division, calculated based on a system-wide decrease of approximately $41,601,866, as adjusted for excess Accumulated Deferred Income Taxes.

14. The Settlement provides for an apportioned decrease of approximately $2,850,968 for the unincorporated areas of the Mid-Tex Division, calculated based on a system-wide decrease of approximately $63,189,366, as adjusted for excess Accumulated Deferred Income Taxes.

15. The Settlement includes a reduction of the corporate income tax rate from 35% to 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017.

16. The parties have established that the proposed revenue decrease of $2,850,968 from current unincorporated revenues is just and reasonable.

17. The proposed division-wide rates will affect the following classes of customers within the unincorporated areas of the Mid-Tex Division: Rate R – Residential Sales, Rate C – Commercial Sales, Rate I – Industrial Sales, and Rate T – Transportation Sales.

18. The rates reflected in the Settlement, attached to this Order as <u>Attachment 1</u>, and the customer charges set forth therein, are just and reasonable for customers within the unincorporated areas of the Mid-Tex Division.

	Customer/Meter Charge	Consumption Charge (per Ccf)
Rate R – Residential Sales	$ 17.00	$.18653
Rate C – Commercial Sales	$ 40.00	$.10494
Rate I & Rate T– Industrial and Transportation Sales	$784.00	
Rate I&T – <= 1,500 MMBtu		$.3701
Rate I&T 1,501 - <= 5,000 MMBtu		$.2712
Rate I&T > 5,000 MMBtu		$.0582

19. The following capital structure, cost of debt, cost of equity, weighted cost of capital, overall rate of return, and pre-tax return included in the Settlement for the Mid-Tex Division are just and reasonable.

Class of Capital	Percent	Cost	Weighted Cost of Capital	Pre-Tax Return
Long-Term Debt	39.82%	5.20%	2.07%	2.07%
Common Equity	60.18%	9.80%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

20. The Settlement is just and reasonable to require that any future interim rate adjustment (IRA) filings affecting the unincorporated areas of the Mid-Tex Division pursuant to Tex. Util. Code § 104.301 (West 2007 & Supp. 2017) shall use the following factors until changed by a subsequent rate proceeding:

a. The capital structure and related components as shown in Finding of Fact No. 19.

b. For any initial IRA filing, the beginning ad valorem tax rate at a Mid-Tex Division level is 1.18% and the Shared Services Ad Valorem Tax Rate is 0.69%. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.

c. For any initial IRA filing, the system-wide net plant in service amount in the Mid-Tex Division shall be $3,208,989,119 as presented in Exhibit C to the Settlement.

d. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10170 as presented in Exhibit C to the Settlement.

e. For any initial IRA filing, the customer charges and consumption charges as shown in Finding of Fact No. 18 above will be the starting rates to which any IRA adjustment is applied.

f. Federal income taxes will be calculated using a 21% rate, unless the federal income tax rate is changed, in which case the new rate will be applied.

g. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	Percentage
Rate R – Residential Sales	77.95%
Rate C – Commercial Sales	19.40%
Rate I & T – Industrial/Transportation Sales	2.65%

21. Atmos may pursue recovery of a deferred benefit regulatory asset or liability pursuant to Tex. Util. Code § 104.059 (West 2007 & Supp. 2017) in a future filing. The following amounts are established as the base-year levels to track changes in pension-related and other post-employment benefits:

Entity	**Pension Account Plan**	**Post-Employment Benefit Plan**	**Supplemental Executive Benefit Plan**	**Total**
SSU Allocated to Mid-Tex	$ 1,425,108	$ 943,775	$ 0	$ 2,368,883
Mid-Tex Direct	$ 1,987,133	$ 1,062,621	$ 35,837	$ 3,085,591
Total	**$ 3,412,241**	**$ 2,006,396**	**$ 35,837**	**$ 5,454,474**

22. It is reasonable to continue the use of the depreciation rates established in GUD No. 10170 as presented in Exhibit C to the Settlement.

23. It is reasonable that the revenue requirement includes a reduction of the corporate income tax rate from 35% to 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017 (the "Tax Cuts and Jobs Act").

24. It is reasonable that the revenue requirement includes an adjustment to federal income tax expense for excess deferred income taxes ("EDIT") resulting from the Tax Cuts and Jobs Act and for this amount to be computed based on the Reverse South Georgia Method (the "RSG Method") for those amounts required under Internal Revenue Service ("IRS") normalization rules.

25. It is reasonable for Atmos's protected EDIT liabilities to be amortized over a 24-year period as determined by the RSG Method.

26. It is reasonable for Atmos's unprotected EDIT to be amortized over a 24-year period because this balance is a net asset on Atmos's books and the use of this amortization period rather than a shorter amortization period benefits

ratepayers by extending the period over which that balance must be repaid to Atmos.

27. It is reasonable that the revenue requirement excludes all expenses associated with the payment of administrative penalties related to the operation of the Mid-Tex Division system, as well as the amortization of any related insurance deductible.

28. Insurance services required by Atmos are acquired from Blueflame, a wholly owned subsidiary of Atmos Energy that provides insurance for all of Atmos Energy's divisions.

29. All of the Mid-Tex Division property, plant, and equipment are covered through property insurance provided by Blueflame.

30. Insurance services provided by Blueflame are at cost and without markup.

31. The cost of insurance coverage is allocated among the Atmos Energy divisions and subsidiaries based upon the annual plant balance.

32. The rate of insurance was $0.070 per $100 of gross plant through February 28, 2017, and $0.065 per $100 of gross plant through December 31, 2017, which is lower than the previously approved rates that the Commission determined to be reasonable and necessary in GUD No. 10170 and consistent with Tex. Util. Code § 104.055(b)(1).

33. Atmos has established that system-wide expenses in the amount of $453,887 for Blueflame are (a) reasonable and necessary and (b) the price charged to the Atmos is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a non-affiliated person for the same item or class of items.

34. Atmos has established that the actual and estimated rate case expenses totaling $98,762.23 are just and reasonable, that the expenses do not include any charges for luxury items, and that Atmos did not incur any excessive airline, lodging, or meal expenses.

35. Atmos established that the amount of work done and the time and labor required to accomplish the work was reasonable given the nature of the issues addressed.

36. It is reasonable that the recovery of $98,762.23 in total rate case expenses be over an approximate twelve (12) month period with the surcharge separately stated on each bill.

37. It is reasonable that Atmos submit to Staff invoices reflecting actual rate case expenses with sufficient detail so that Staff can accurately audit such invoices for the purposes of reconciling estimated rate case expenses to actual rate case expenses. In no case shall the total actual rate case expenses exceed

the actual expenses submitted to the Commission as of August 31, 2018, plus the approved estimated expenses of $30,000.00.

38. It is reasonable that Atmos file an annual Rate Case Expense Compliance Filing with Staff detailing the balance of actual plus estimated rate case expenses at the beginning of the annual period, the amount collected by customer class, and the ending or remaining balance within ninety (90) days after each calendar year end until and including the calendar year end in which rate case expenses are fully recovered.

39. The tariffs attached to this Order are just and reasonable.

CONCLUSIONS OF LAW

1. Atmos is a gas utility as defined in Tex. Util. Code §§ 101.003(7) and 121.001 (West 2007 & Supp. 2017) and is therefore subject to the jurisdiction of the Commission.

2. Under Tex. Util. Code § 102.001 (West 2007 & Supp. 2017), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.

3. The Commission has jurisdiction over Atmos's SOI under Tex. Util. Code §§ 102.001, 104.001, and 104.201 (West 2007 & Supp. 2017).

4. This proceeding was conducted in accordance with the requirements of GURA §§ 101.001 *et seq.,* (West 2007 & Supp. 2017) and the Administrative Procedure Act, Tex. Gov't Code §§ 2001.001 *et seq*. (West 2017 & Supp. 2018).

5. Tex. Util. Code § 104.107 (West 2007 & Supp. 2017) provides the Commission's authority to suspend the operation of the schedule of proposed rates for 150 days from the date the schedule would otherwise go into effect.

6. In accordance with Tex. Util. Code § 104.103 (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.230 and 7.235, adequate notice was properly provided.

7. Atmos filed its SOI in accordance with Tex. Util. Code § 104.102 (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.205 and 7.210.

8. Atmos established that its books and records conform with 16 Tex. Admin. Code § 7.310 and therefore Atmos is entitled to the presumption that the amounts included therein are reasonable and necessary in accordance with 16 Tex. Admin. Code § 7.503.

9. The revenue, rates, rate design, and service charges identified in the schedules attached to this Order are just and reasonable, are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumer, as required by Tex. Util. Code §§ 101.002, et. seq. (West 2007 & Supp. 2017).

10. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for Atmos that will permit it a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by Tex. Util. Code § 104.051 (West 2007 & Supp. 2017); and otherwise comply with Chapter 104 of the Texas Utilities Code.

11. The revenue, rates, rate design, and service charges proposed will not yield to Atmos more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by Tex. Util. Code § 104.052 (West 2007 & Supp. 2017).

12. The rates established in this docket comport with the requirements of Tex. Util. Code § 104.053 (West 2007 & Supp. 2017) and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost less depreciation and current cost less an adjustment for present age and condition.

13. The test-year level of pension-related and other post-employment benefits expenses are consistent with Tex. Util. Code § 104.059 (West 2007 & Supp. 2017).

14. The rates established in this case comply with the affiliate transaction standard set out in Tex. Util. Code § 104.055 (West 2007 & Supp. 2017).

15. Atmos has complied with all requirements set forth in the February 2018 Gas Utilities Accounting Order in GUD No. 10695, and the related March 2018 Order Nunc Pro Tunc.

16. Capital investment made through December 31, 2017, was reasonable and prudent and consistent with Tex. Util. Code, Chapter 104 and Commission Rule § 7.7101.

17. A rate base amount totaling $3,208,989,119 for the Mid-Tex Division is just and reasonable.

18. A rate of return of 7.97 percent, including the components specified in this Order, is consistent with the requirements of Tex. Util. Code § 104.052 (West 2007 & Supp. 2017).

19. An overall base revenue requirement of $19,204,995 for the unincorporated areas and a system-wide base revenue requirement of $594,157,866 for the

Mid-Tex Division is just and reasonable, and permits Atmos a reasonable opportunity to earn a reasonable return on Atmos's invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.

20. Actual rate case expenses totaling no more than $98,762.23 are reasonable, necessary, and consistent with the requirements of 16 Tex. Admin. Code § 7.5530(a).

21. In accordance with 16 Tex. Admin. Code § 7.7101, Atmos may adjust its revenue in future IRA filings based on the difference between values of the investment amounts only by the constant factors set in this docket for: return on investment; depreciation expenses, for those individual rates for each FERC account; ad valorem taxes; revenue related taxes; and federal income tax.

22. The rate schedules and tariffs reflected in this Order are consistent with applicable statutory and Commission requirements.

23. Atmos is required by 16 Tex. Admin. Code § 7.315 to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

IT IS THEREFORE ORDERED that the proposed schedule of rates under the Settlement is hereby **APPROVED**.

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact, conclusions of law, and as shown on the attached tariffs for Atmos are **APPROVED**.

IT IS FURTHER ORDERED that the factors established for future Interim Rate Adjustments in Finding of Fact No. 20 are **APPROVED**.

IT IS FURTHER ORDERED that Atmos file an annual Rate Case Expense Compliance Filing with Staff detailing recovery of rate case expenses as described in Finding of Fact Nos. 34-37 within ninety (90) days after each calendar year end until the calendar year end until and including the calendar year end in which the rate case expenses are fully recovered.

IT IS FURTHER ORDERED that the Settlement attached to this Order as Attachment 1 is hereby **APPROVED**.

IT IS FURTHER ORDERED that within thirty (30) days of this Order, in accordance with 16 Tex. Admin. Code § 7.315, Atmos shall electronically file its rate schedules in proper form that accurately reflect the rates in Attachment 1 to this Order.

IT IS FURTHER ORDERED that any incremental change in rates approved by this Order and implemented by Atmos shall be subject to refund unless and until Atmos's tariffs are electronically filed and accepted by the Gas Services Department in accordance with 16 Tex. Admin. Code § 7.315.

IT IS FURTHER ORDERED that all proposed findings of fact and conclusions of law not specifically adopted in this Order are hereby **DENIED**.

IT IS FURTHER ORDERED that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED**.

IT IS FURTHER ORDERED that this Order will not be final and effective until 25 days after the date this Order is signed. If a timely motion for rehearing is filed by any party of interest, this Order shall not become final and effective until such motion is overruled, or if such motion is granted, this Order shall be subject to further action by the Commission. The time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law is hereby extended until 100 days from the date this Order is signed.

SIGNED this 11th day of December, 2018.

RAILROAD COMMISSION OF TEXAS

Christi Craddick

CHAIRMAN CHRISTI CRADDICK

COMMISSIONER RYAN SITTON

COMMISSIONER WAYNE CHRISTIAN

ATTEST:

Kathy Way

SECRETARY

Final Order
GUD No. 10742

ATTACHMENT 1

(Settlement Agreement)

GUD NO. 10742

STATEMENT OF INTENT FILED BY ATMOS ENERGY CORP. TO CHANGE GAS UTILITY RATES WITHIN THE UNINCORPORATED AREAS SERVED BY ITS MID-TEX DIVISION	**§ § § § §**	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

UNANIMOUS SETTLEMENT AGREEMENT

This Unanimous Settlement Agreement is entered into by and between Atmos Energy Corp., Mid-Tex Division (Atmos Energy) and the Staff of the Railroad Commission of Texas (Staff), (collectively, the "Signatories").

WHEREAS, on June 29, 2018, Atmos Energy filed its Statement of Intent to Change Gas Utility Rates within the Unincorporated Areas with the Railroad Commission of Texas (Commission); and

WHEREAS, the Commission docketed the rate request as GUD No. 10742; and

WHEREAS, Commission Staff sought intervention and were granted party status in GUD No. 10742; and

WHEREAS, the Company has filed direct testimony and errata to its Statement of Intent; and

WHEREAS, the parties have engaged in discovery regarding the issues in dispute; and

WHEREAS, Staff direct testimony was due on September 21, 2018, but Staff did not file direct testimony in reliance on this Unanimous Settlement Agreement; and

WHEREAS, the Signatories agree that resolution of this docket by unanimous settlement agreement will significantly reduce the amount of reimbursable rate case expenses associated with this docket;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the Commission the following Settlement Terms as a means of concluding the above-referenced docket filed by Atmos Energy without the need for prolonged litigation:

Settlement Terms

1. As a product of compromise and for the purposes of settlement, the Signatories agree to the rates, terms and conditions reflected in the tariffs attached to this Unanimous Settlement Agreement as Exhibit A. The tariffs attached as Exhibit A replace and supersede those tariffs currently in effect for the unincorporated areas of the Mid-Tex Division. These tariffs are premised on a decrease of $(2,850,968) million in current annual revenues from

the unincorporated areas as illustrated in the proof of revenues attached as part of Exhibit B to this Unanimous Settlement Agreement. Except as specifically provided herein, the Signatories agree that the $(2,850,968) million revenue decrease for the unincorporated areas, as adjusted for Accumulated Deferred Income Tax, is not tied to any specific expense in the underlying cost of service within Atmos Energy's Mid-Tex Division. The agreed upon system-wide decrease, as adjusted for excess Accumulated Deferred Income Taxes, is $(63,189,366). The agreed upon system-wide net revenue requirement is $594,157,866 as reflected in Exhibit F. The Signatories further agree that the rates, terms and conditions reflected in Exhibit A to this Unanimous Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code. The gas rates, terms and conditions established by this Unanimous Settlement Agreement shall be effective upon approval by the Commission.

2. Signatories agree that the revenue requirement in paragraph 1 includes expenses associated with services acquired by Blueflame, a wholly-owned subsidiary of Atmos Energy that provides insurance for all of the Company's divisions. The rate of insurance included in the Company's filing was $0.070 per $100 of gross plant through February 28, 2017, and $0.065 per $100 of gross plant through December 31, 2017, which is lower than the previously approved rates that the Commission determined to be reasonable and necessary in GUD No. 10170 and consistent with Tex. Util. Code § 104.055(b)(1).

3. Signatories agree that system-wide expenses in the amount of $453,887 associated with services acquired by Blueflame are (a) reasonable and necessary and (b) the price charged to Atmos Energy's Mid-Tex Division is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a non-affiliated person for the same item or class of items as required by Section 104.055 of the Gas Utility Regulatory Act.

4. Signatories agree that the net base revenue requirement in paragraph 1 excludes all expenses associated with the payment of administrative penalties related to the operation of the Mid-Tex Division system, as well as the amortization of any related insurance deductible.

5. The Signatories agree to the following customer charges and consumption charges. These rates are based on test year-end customer count and are reflected in the rate schedules attached as Exhibit A.

	Customer/Meter Charge	**Consumption Charge (per Ccf)**
Rate R – Residential Sales	$ 17.00	$.18653
Rate C – Commercial Sales	$ 40.00	$.10494
Rate I & Rate T– Industrial and Transportation Sales	$784.00	
Rate I&T – <= 1,500 MMBtu		$.3701
Rate I&T 1,501 - <= 5,000 MMBtu		$.2712
Rate I&T > 5,000 MMBtu		$.0582

6. The Signatories agree to use of the following capital structure and weighted cost of capital, including the after-tax return, in future Interim Rate Adjustment (IRA) filings, as shown below.

Class of Capital	**Percent**	**Cost**	**Weighted Cost of Capital**	**Pre-Tax Return**
Long-Term Debt	39.82%	5.20%	2.07%	2.07%
Common Equity	60.18%	9.80%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

7. The Signatories agree that the interim rate adjustments made in 2013, 2014, 2015, 2016, and 2017 pursuant to Texas Utilities Code § 104.301 were just and reasonable.

8. The Signatories agree that any IRA filing in Atmos Energy's Mid-Tex Division pursuant to Texas Utilities Code § 104.301 shall use the following factors until changed by a subsequent general rate proceeding:

a. The capital structure and related components as shown above in Paragraph 6.

b. For any initial IRA filing, the beginning ad valorem tax rate at a Mid-Tex Division level is 1.18% and the Shared Services Ad Valorem Tax Rate is 0.69%. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.

c. For any initial IRA filing, the system-wide net plant in service amount in the Mid-Tex Division shall be $3,208,989,119 as presented in Exhibit C.

d. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10170 as presented in Exhibit C.

e. For any initial IRA filing, the customer charges and consumption charges as shown in Paragraph 5 above will be the starting rates to which any IRA adjustment is applied.

f. Federal income taxes will be calculated using a 21% rate, unless the federal income tax rate changed, in which case the new rate will be applied.

g. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	Percentage
Rate R – Residential Sales	77.95%
Rate C – Commercial Sales	19.40%
Rate I & T – Industrial/Transportation Sales	2.65%

9. The Signatories agree that the following amounts are reasonable to establish the base-year levels to track changes in pension-related and other post-employment benefits:

Entity	Pension Account Plan	Post-Employment Benefit Plan	Supplemental Executive Benefit Plan	Total
SSU Allocated to Mid-Tex	$ 1,425,108	$ 943,775	$ 0	$ 2,368,883
Mid-Tex Direct	$ 1,987,133	$ 1,062,621	$ 35,837	$ 3,085,591
Total	**$ 3,412,241**	**$ 2,006,396**	**$ 35,837**	**$ 5,454,474**

10. The Signatories agree that the decrease amount and net base revenue requirement in Paragraph 1 include a reduction of the corporate income tax rate from 35% to 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017.

    The Signatories further agree that the decrease amount and net base revenue requirement in Paragraph 1 reflect an adjustment to federal income tax expense for excess deferred income taxes (EDIT) resulting from the Tax Cuts and Jobs Act of 2017. The EDIT adjustment has been computed based on the Reverse South Georgia Method for those amounts required under Internal Revenue Service (IRS) normalization rules.

    Signatories agree that it is reasonable to amortize the Company's protected EDIT liabilities over a 24 year period as determined by the RSG method and shown on Exhibit D. The Signatories further agree that the Company's unprotected EDIT should be amortized over the same 24 year period as shown on Exhibit D. The Signatories have agreed to a 24 year amortization of the Company's unprotected EDIT because this balance is a net asset on the Company's books and the use of this amortization period rather than a shorter amortization period benefits ratepayers by extending the period over which that balance must be repaid to the Company.

11. The Signatories further agree that Atmos Energy has fully complied with all requirements set forth in the Gas Utilities Accounting Order (Feb. 27, 2018) and Order Nunc Pro Tunc (March 20, 2018) issued in GUD No. 10695.

12. Atmos Energy represents that its reasonable rate case expenses incurred through August 2018, and estimated rate case expenses incurred through completion of this case, are as follows:

	Required Regulatory Expenses	Litigation Expenses	Estimate to Completion	Total
Atmos Energy	$50,358.00, less $200, totals $50,158.00	$18,604.23	$30,000	$98,762.23

13. Atmos Energy has attached as Exhibit E an affidavit and invoices in support of these amounts and will supplement with additional invoices as they are processed. The Signatories agree that the amounts represented above are reasonable and recoverable pursuant to Texas Utilities Code § 104.051. The Signatories agree that the recovery period

for the applicable surcharge to recover rate-case expenses shall be twelve (12) months. The Signatories intend and advocate that the Commission authorize recovery of the rate case expenses recited above in the same proceeding and at the same time as it approves this Unanimous Settlement Agreement.

14. Atmos Energy shall file annually, due on or before April 1, a rate case expense recovery compliance filing with the Railroad Commission of Texas, Oversight and Safety Division, referencing GUD No. 10742. The Signatories agree to and propose the inclusion of the following Findings of Fact and Ordering Paragraph in the Final Order in this docket:

    a. Finding of Fact: It is reasonable that Atmos Energy submit to Staff invoices reflecting actual rate case expenses with sufficient detail so that Staff can accurately audit such invoices for the purposes of reconciling estimated rate case expenses to actual rate case expenses. In no case shall the total actual expenses exceed the actual expenses submitted to the Commission as of August 31, 2018, plus the approved estimated expenses of $30,000.00.

    b. Finding of Fact: It is reasonable that Atmos Energy file an annual Rate Case Expense Compliance Filing with Staff detailing the balance of actual plus estimated rate case expenses at the beginning of the annual period, the amount collected by customer class, and the ending or remaining balance within ninety (90) days after each calendar year end until and including the calendar year end in which the rate case expenses are fully recovered.

    c. Ordering Paragraph: IT IS FURTHER ORDERED that Atmos Energy file an annual Rate Case Expense Compliance Filing with Staff detailing recovery of rate case expenses as described in Finding of Fact 38 within ninety (90) days after each calendar year end until the calendar year end until and including the calendar year end in which the rate case expenses are fully recovered.

15. The Signatories agree to and propose the inclusion of the following Ordering Paragraphs in the Final Order in this docket:

    a. Ordering Paragraph: IT IS FURTHER ORDERED that within thirty (30) days of this Final Order, in accordance with 16 Tex. Admin. Code § 7.315, Atmos Energy SHALL electronically file its rate schedules in proper form that accurately reflect the rates in Exhibit A approved in this Final Order.

    b. Ordering Paragraph: IT IS FURTHER ORDERED that any incremental change in rates approved by this Final Order and implemented by Atmos Energy shall be subject to refund unless and until Atmos Energy's tariffs are electronically filed and accepted by the Gas Services Department in accordance with 16 Tex. Admin. Code § 7.315.

16. The classes and number of customers affected by this Unanimous Settlement Agreement include approximately 56,819 residential, 2,129 commercial, and 38 industrial and transportation customers.

17. The Signatories agree to support and seek Commission approval of this Unanimous Settlement Agreement. The Signatories further agree to make all efforts to present the Commission with this Unanimous Settlement Agreement on or before November 13, 2018.

18. Except as may be allowed under Rule 408 of the Texas Rules of Evidence, the Signatories agree that all negotiations, discussions, and conferences related to the Unanimous Settlement Agreement are privileged and inadmissible to prove the validity or invalidity of any issue raised by or presented in the Statement of Intent to Change Gas Utility Rates within the Unincorporated Areas filed on June 29, 2018.

19. The Signatories agree that neither this Unanimous Settlement Agreement nor any oral or written statements made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the Commission of an order approving this Unanimous Settlement Agreement.

20. The Signatories agree that the terms of the Unanimous Settlement Agreement are interdependent and indivisible, and that if the Commission intends to enter an order that is inconsistent with this Unanimous Settlement Agreement, then any Signatory may withdraw without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Unanimous Settlement Agreement or its subsequent withdrawal and further agrees that Atmos Energy's application to increase rates will be remanded for hearings.

21. The Signatories agree that this Unanimous Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes. The matters resolved herein are resolved on the basis of a compromise and settlement. Except to the extent the Unanimous Settlement Agreement governs a Signatory's rights and obligations for future periods, this Unanimous Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding. Each Signatory acknowledges that a Signatory's support of the matters contained in this Stipulation may differ from the position taken or testimony presented by it in other dockets or other jurisdictions. To the extent that there is a difference, a Signatory does not waive its position in any of those other dockets or jurisdictions. Because this is a stipulated resolution, no Signatory is under any obligation to take the same positions as set out in this Stipulation in other dockets or jurisdictions, regardless of whether other dockets present the same or a different set of circumstances, except as otherwise may be explicitly provided by this Stipulation. Agreement by the Signatories to any provision in this Stipulation will not be used against any Signatory in any future proceeding with respect to different positions that may be taken by that Signatory.

22. The provisions of this Stipulation are intended to relate to only the specific matters referred to herein. By agreeing to this Stipulation, no Signatory waives any claim it may otherwise have with respect to issues not expressly provided for herein. The Signatories further understand and agree that this Stipulation represents a negotiated settlement of all issues in this proceeding.

23. The Signatories agree that this Unanimous Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 5th day of October 2018.

ATMOS ENERGY CORP., MID-TEX DIVISION

By: ______________________
Ann M. Coffin
Attorney for Atmos Energy Corp., Mid-Tex Division

STAFF OF THE RAILROAD COMMISSION OF TEXAS

By: Natalie Dubiel
Natalie Dubiel
Attorney for Staff of the Railroad Commission of Texas

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**R – RESIDENTIAL SALES**	
APPLICABLE TO:	**UNINCORPORATED AREAS**	
EFFECTIVE DATE:	**Bills Rendered on or after**	**PAGE:**

Application
Applicable to Residential Customers for all natural gas provided at one Point of Delivery and measured through one meter.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's monthly bill will be calculated by adding the following Customer and Ccf charges to the amounts due under the riders listed below:

Charge	Amount
GUD 10742 Customer Charge per Bill	$ 17.00 per month
Rider CEE Surcharge	$ 0.03 per month[1]
Total Customer Charge	$ 17.03 per month
Commodity Charge – All Ccf	$ 0.18653 per Ccf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Weather Normalization Adjustment: Plus or Minus an amount for weather normalization calculated in accordance with Rider WNA.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement
An Agreement for Gas Service may be required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

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[1] Reference Rider CEE – Conservation and Energy Efficiency as approved in GUD 10170. Surcharge billing effective July 1, 2018.

MID-TEX DIVISION **RRC Tariff No:**
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**C – COMMERCIAL SALES**	
APPLICABLE TO:	**UNINCORPORATED AREAS**	
EFFECTIVE DATE:	**Bills Rendered on or after**	**PAGE:**

Application
Applicable to Commercial Customers for all natural gas provided at one Point of Delivery and measured through one meter and to Industrial Customers with an average annual usage of less than 30,000 Ccf.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's monthly bill will be calculated by adding the following Customer and Ccf charges to the amounts due under the riders listed below:

Charge	**Amount**
GUD 10742 Customer Charge per Bill	$ 40.00 per month
Rider CEE Surcharge	$ (0.03) per month[1]
Total Customer Charge	$ 39.97 per month
Commodity Charge - All Ccf	$ 0.10494 per Ccf

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Weather Normalization Adjustment: Plus or Minus an amount for weather normalization calculated in accordance with Rider WNA.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Agreement
An Agreement for Gas Service may be required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

[1] Reference Rider CEE – Conservation and Energy Efficiency as approved in GUD 10170. Surcharge billing effective July 1, 2018.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**I – INDUSTRIAL SALES**	
APPLICABLE TO:	**UNINCORPORATED AREAS**	
EFFECTIVE DATE:	**Bills Rendered on or after**	**PAGE:**

Application
Applicable to Industrial Customers with a maximum daily usage (MDU) of less than 3,500 MMBtu per day for all natural gas provided at one Point of Delivery and measured through one meter. Service for Industrial Customers with an MDU equal to or greater than 3,500 MMBtu per day will be provided at Company's sole option and will require special contract arrangements between Company and Customer.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's monthly bill will be calculated by adding the following Customer and MMBtu charges to the amounts due under the riders listed below:

Charge	Amount
GUD 10742 Customer Charge per Meter	$ 784.00 per month
Total Customer Charge	$ 784.00 per month
First 0 MMBtu to 1,500 MMBtu	$ 0.3701 per MMBtu
Next 3,500 MMBtu	$ 0.2712 per MMBtu
All MMBtu over 5,000 MMBtu	$ 0.0582 per MMBtu

Gas Cost Recovery: Plus an amount for gas costs and upstream transportation costs calculated in accordance with Part (a) and Part (b), respectively, of Rider GCR.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Curtailment Overpull Fee
Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

Replacement Index
In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement
An Agreement for Gas Service may be required.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**I – INDUSTRIAL SALES**	
APPLICABLE TO:	**UNINCORPORATED AREAS**	
EFFECTIVE DATE:	**Bills Rendered on or after**	**PAGE:**

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions
In order to receive service under Rate I, Customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RRC Tariff No:

RATE SCHEDULE:	**T – TRANSPORTATION**	
APPLICABLE TO:	**UNINCORPORATED AREAS**	
EFFECTIVE DATE:	**Bills Rendered on or after**	**PAGE:**

Application
Applicable, in the event that Company has entered into a Transportation Agreement, to a customer directly connected to the Atmos Energy Corp., Mid-Tex Division Distribution System (Customer) for the transportation of all natural gas supplied by Customer or Customer's agent at one Point of Delivery for use in Customer's facility.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's bill will be calculated by adding the following Customer and MMBtu charges to the amounts and quantities due under the riders listed below:

Charge	Amount
GUD 10742 Customer Charge per Meter	$ 784.00 per month
Total Customer Charge	$784.00 per month
First 0 MMBtu to 1,500 MMBtu	$ 0.3701 per MMBtu
Next 3,500 MMBtu	$ 0.2712 per MMBtu
All MMBtu over 5,000 MMBtu	$ 0.0582 per MMBtu

Upstream Transportation Cost Recovery: Plus an amount for upstream transportation costs in accordance with Part (b) of Rider GCR.

Retention Adjustment: Plus a quantity of gas as calculated in accordance with Rider RA.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

Imbalance Fees
All fees charged to Customer under this Rate Schedule will be charged based on the quantities determined under the applicable Transportation Agreement and quantities will not be aggregated for any Customer with multiple Transportation Agreements for the purposes of such fees.

Monthly Imbalance Fees
Customer shall pay Company the greater of (i) $0.10 per MMBtu, or (ii) 150% of the difference per MMBtu between the highest and lowest "midpoint" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" during such month, for the MMBtu of Customer's monthly Cumulative Imbalance, as defined in the applicable Transportation Agreement, at the end of each month that exceeds 10% of Customer's receipt quantities for the month.

Curtailment Overpull Fee
Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the midpoint price for the Katy point listed in *Platts Gas Daily* published for the applicable Gas Day in the table entitled "Daily Price Survey."

MID-TEX DIVISION **RRC Tariff No:**
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**T – TRANSPORTATION**	
APPLICABLE TO:	**UNINCORPORATED AREAS**	
EFFECTIVE DATE:	**Bills Rendered on or after**	**PAGE:**

Replacement Index
In the event the "midpoint" or "common" price for the Katy point listed in *Platts Gas Daily* in the table entitled "Daily Price Survey" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement
A transportation agreement is required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions
In order to receive service under Rate T, customer must have the type of meter required by Company. Customer must pay Company all costs associated with the acquisition and installation of the meter.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RIDER:	**WNA – WEATHER NORMALIZATION ADJUSTMENT**	
APPLICABLE TO:	**UNINCORPORATED AREAS**	
EFFECTIVE DATE:	**Bills Rendered on or after**	**PAGE:**

Provisions for Adjustment

The Commodity Charge per Ccf (100 cubic feet) for gas service set forth in any Rate Schedules utilized by the cities of the Mid-Tex Division service area for determining normalized winter period revenues shall be adjusted by an amount hereinafter described, which amount is referred to as the "Weather Normalization Adjustment." The Weather Normalization Adjustment shall apply to all temperature sensitive residential and commercial bills based on meters read during the revenue months of November through April. The five regional weather stations are Abilene, Austin, Dallas, Waco, and Wichita Falls.

Computation of Weather Normalization Adjustment

The Weather Normalization Adjustment Factor shall be computed to the nearest one-hundredth cent per Ccf by the following formula:

$$WNAF_i \quad = \quad R_i \quad \frac{(HSF_i \quad x \quad (NDD\text{-}ADD)\ )}{(BL_i \quad + \quad (HSF_i \quad x \quad ADD)\ )}$$

Where

i = any particular Rate Schedule or billing classification within any such particular Rate Schedule that contains more than one billing classification

$WNAF_i$ = Weather Normalization Adjustment Factor for the i^{th} rate schedule or classification expressed in cents per Ccf

R_i = Commodity Charge rate of temperature sensitive sales for the i^{th} schedule or classification.

HSF_i = heat sensitive factor for the i^{th} schedule or classification divided by the average bill count in that class

NDD = billing cycle normal heating degree days calculated as the simple ten-year average of actual heating degree days.

ADD = billing cycle actual heating degree days.

Bl_i = base load sales for the i^{th} schedule or classification divided by the average bill count in that class

The Weather Normalization Adjustment for the jth customer in ith rate schedule is computed as:

$$WNA_i = \quad WNAF_i \ x \ q_{ij}$$

Where q_{ij} is the relevant sales quantity for the jth customer in ith rate schedule.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RIDER:	**WNA – WEATHER NORMALIZATION ADJUSTMENT**	
APPLICABLE TO:	**UNINCORPORATED AREAS**	
EFFECTIVE DATE:	**Bills Rendered on or after**	**PAGE:**

Base Use/Heat Use Factors

	Residential		Commercial	
Weather Station	Base use Ccf	Heat use Ccf/HDD	Base use Ccf	Heat use Ccf/HDD
Abilene	11.27	0.1324	135.40	1.5905
Austin	11.51	0.1658	170.24	0.9314
Dallas	13.47	0.1887	123.81	0.9850
Waco	9.24	0.1362	93.86	1.0142
Wichita Falls	11.24	0.1264	110.38	0.9253

Weather Normalization Adjustment (WNA) Report

On or before June 1 of each year, the company posts on its website at atmosenergy.com/mtx-wna, in Excel format, a *Weather Normalization Adjustment (WNA) Report* to show how the company calculated its WNAs factor during the preceding winter season. Additionally, on or before June 1 of each year, the company files one hard copy and a Excel version of the *WNA Report* with the Railroad Commission of Texas' Gas Services Division, addressed to the Director of that Division.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RIDER:	**FF – FRANCHISE FEE ADJUSTMENT**	
APPLICABLE TO:	**Entire Division except Unincorporated Areas**	
EFFECTIVE DATE:		**PAGE:**

Application

Applicable to Customers inside the corporate limits of an incorporated municipality that imposes a municipal franchise fee upon Company for the Gas Service provided to Customer.

Monthly Adjustment

Company will adjust Customer's bill each month in an amount equal to the municipal franchise fees payable for the Gas Service provided to Customer by Company. Municipal franchise fees are determined by each municipality's franchise ordinance. Each municipality's franchise ordinance will specify the percentage and applicability of franchise fees.

From time to time, Company will make further adjustments to Customer's bill to account for any over- or under-recovery of municipal franchise fees by Company.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

RIDER:	**TAX – TAX ADJUSTMENT**	
APPLICABLE TO:	**Entire Division except Unincorporated Areas**	
EFFECTIVE DATE:		**PAGE:**

Application

Applicable to Customers taking service under Rate R, Rate C, Rate I, Rate T, Rate CGS, and Rate PT, except for exempt State Agency Customers, to the extent of state gross receipts taxes only.

Each monthly bill shall be adjusted for state gross receipts taxes imposed by Sections 182-021 - 182-025 of the Texas Tax Code.

Each monthly bill shall also be adjusted by an amount equivalent to the amount of all applicable taxes and any other governmental impositions, rentals, fees, or charges (except state, county, city, and special district ad valorem taxes and taxes on net income) levied, assessed, or imposed upon or allocated to Company with respect to the Gas Service provided to Customer by Company, and any associated facilities involved in the performance of such Gas Service. Each monthly bill shall also be adjusted by an amount equivalent to the proportionate part of any increase or decrease of any tax and any other governmental imposition, rental, fee, or charge (except state, county, city, and special district ad valorem taxes and taxes on net income) levied, assessed, or imposed subsequent to the effective date of this tariff, upon or allocated to Company's operations, by any new or amended law, ordinance, or contract.

MID-TEX DIVISION
ATMOS ENERGY CORPORATION

	V. – QUALITY OF SERVICE	
APPLICABLE TO:	**Entire Division**	
EFFECTIVE DATE:		**PAGE: 92**

For gas utility service to residential, commercial and industrial sales customers, the following minimum service standards shall be applicable in unincorporated areas served by the Company. For the purposes of this rate schedule, the Company is referred to as the "utility." In addition, these minimum service standards shall be applicable to residential, commercial and industrial sales customers within incorporated areas served by the utility, but only to the extent that said minimum service standards do not conflict with, supersede, or replace a provision of quality of service standards lawfully established currently or in the future within a particular municipality for a gas distribution utility. The utility shall file service rules incorporating said minimum service standards with the Railroad Commission and with the municipalities in the manner prescribed by law.

(1) Continuity of service.

(A) Service interruptions.

(i) The utility shall make all reasonable efforts to prevent interruptions of service. When interruptions occur, the utility shall reestablish service within the shortest possible time consistent with prudent operating principles so that the smallest number of customers are affected.

(ii) The utility shall make reasonable provisions to meet emergencies resulting from failure of service, and the utility shall issue instructions to its employees covering procedures to be followed in the event of an emergency in order to prevent or mitigate interruption or impairment of service.

(iii) In the event of national emergency or local disaster resulting in disruption of normal service, the utility may, in the public interest, interrupt service to other customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.

(iv) Curtailment of gas service will be done in accordance with the utility's curtailment program as authorized by the appropriate regulatory body. When notified by the utility, the customer will curtail gas service. In the event of any curtailment, utility personnel may physically turn off or restrict gas deliveries and only utility personnel will thereafter be permitted to restore gas service. The customer assumes any and all risk and will indemnify the utility against all damages, losses and expenses resulting from a curtailment of gas service under the utility's authorized curtailment program, except to the extent such damages, losses and expenses result from the gross negligence of the utility.

(B) Record of interruption. Except for momentary interruptions which do not cause a major disruption of service, the utility shall keep a complete record of all interruptions, both emergency and scheduled. This record shall show the cause of interruptions, date, time duration, location, approximate number of customers affected, and, in cases of emergency interruptions, the remedy and steps taken to prevent recurrence.

(C) Report to commission. The commission shall be notified in writing within 48 hours of interruptions in service affecting the entire system or any major division thereof lasting more than four hours. The notice shall also state the cause of such interruptions. If any service interruption is reported to the commission otherwise (for example, as a curtailment report or safety report), such other report is sufficient to comply with the terms of this paragraph.

(2) Customer relations.

(A) Information to customers. The utility shall:

(i) maintain a current set of maps showing the physical locations of its facilities. All distribution facilities shall be labeled to indicate the size or any pertinent information which will accurately

	V. – QUALITY OF SERVICE	
APPLICABLE TO:	Entire Division	
EFFECTIVE DATE:		PAGE: 93

describe the utility's facilities. These maps, or such other maps as may be required by the regulatory authority, shall be kept by the utility in a central location and will be available for inspection by the regulatory authority during normal working hours. Each business office or service center shall have available up-to-date maps, plans, or records of its immediate area, with such other information as may be necessary to enable the utility to advise applicants and others entitled to the information as to the facilities available for serving that locality;

(ii) assist the customer or applicant in selecting the most economical rate schedule;

(iii) in compliance with applicable law or regulations, notify customers affected by a change in rates or schedule or classification;

(iv) post a notice on the Company's website informing the public that copies of the rate schedules and rules relating to the service of the utility as filed with the commission are available for inspection;

(v) upon request inform its customers as to the method of reading meters;

(vi) provide to new customers, at the time service is initiated or as an insert in the first billing, a pamphlet or information packet containing the following information. This information shall be provided in English and Spanish as necessary to adequately inform the customers; provided, however, the regulatory authority upon application and a showing of good cause may exempt the utility from the requirement that the information be provided in Spanish:

(I) the customer's right to information concerning rates and services and the customer's right to inspect or obtain at reproduction cost a copy of the applicable tariffs and service rules;

(II) the customer's right to have his or her meter checked without charge under paragraph (7) of this section, if applicable;

(III) the time allowed to pay outstanding bills;

(IV) grounds for termination of service;

(V) the steps the utility must take before terminating service;

(VI) how the customer can resolve billing disputes with the utility and how disputes and health emergencies may affect termination of service;

(VII) information on alternative payment plans offered by the utility;

(VIII) the steps necessary to have service reconnected after involuntary termination;

(IX) the appropriate regulatory authority with whom to register a complaint and how to contact such authority;

(X) a toll-free telephone number where information may be obtained concerning the hours and addresses of locations where bills may be paid; and

(XI) the customer's right to be instructed by the utility how to read his or her meter;

(vii) at least once each calendar year, notify customers that information is available upon request, at no charge to the customer, concerning the items listed in clause (vi)(I) - (XI) of this subparagraph. This notice may be accomplished by use of a billing insert or a printed statement upon the bill itself.

(B) Customer complaints. Upon complaint to the utility by residential, commercial or industrial sales customers either at its office, by letter, or by telephone, the utility shall promptly make a suitable investigation and advise the complainant of the results thereof. The utility shall keep a record of all complaints which shall show the name and address of the complainant, the date and nature of the

	V. – QUALITY OF SERVICE
APPLICABLE TO:	**Entire Division**
EFFECTIVE DATE:		**PAGE: 94**

complaint, and the adjustment or disposition thereof for a period of one year subsequent to the final disposition of the complaint.

(C) Utility response. Upon receipt of a complaint, either by letter or by telephone, from the regulatory authority on behalf of a customer, the utility shall make a suitable investigation and advise the regulatory authority and complainant of the results thereof. An initial response acknowledging the receipt of the complaint must be made by the next working day. The utility must make a final and complete response within 15 days from the date of receipt by Company of the complaint, unless additional time is granted within the 15-day period. The commission encourages all customer complaints to be made in writing to assist the regulatory authority in maintaining records of the quality of service of each utility; however, telephone communications will be acceptable.

(D) Deferred payment plan. The utility is encouraged to offer a deferred payment plan for delinquent residential accounts. If such a plan is offered, it shall conform to the following guidelines:

(i) Every deferred payment plan entered into due to the customer's inability to pay the outstanding bill in full must provide that service will not be discontinued if the customer pays current bills and a reasonable amount of the outstanding bill and agrees to pay the balance in reasonable installments until the bill is paid.

(ii) For purposes of determining reasonableness under these rules, the following shall be considered: size of delinquent account; customer's ability to pay; customer's payment history; time that the debt has been outstanding; reasons why debt has been outstanding; and other relevant factors concerning the circumstances of the customer.

(iii) A deferred payment plan, if reduced to writing, offered by a utility shall state, immediately preceding the space provided for the customer's signature and in bold-face print at least two sizes larger than any other used, that: "If you are not satisfied with this agreement, do not sign. If **you are satisfied with this agreement, you give up your right to dispute the amount due under th**e agreement except for the utility's failure or refusal to comply with the terms of this agreement."

(iv) A deferred payment plan may include a one-time 5.0% penalty for late payment on the original amount of the outstanding bill with no prompt payment discount allowed except in cases where the understanding bill is unusually high as a result of the utility's error (such as an inaccurately estimated bill or an incorrectly read meter). A deferred payment plan shall not include a finance charge.

(v) If a customer for utility service has not fulfilled terms of a deferred payment agreement or refuses to sign the same if it is reduced to writing, the utility shall have the right to disconnect pursuant to disconnection rules herein and, under such circumstances, it shall not be required to offer a subsequent negotiation of a deferred payment agreement prior to disconnection.

(vi) Any utility which institutes a deferred payment plan shall not refuse a customer participation in such a program on the basis of race, color, creed, sex, marital status, age, or any other form of discrimination prohibited by law.

(E) Delayed payment of bills by elderly persons to residential accounts.

(i) Applicability. This subparagraph applies only to:

(I) a utility that assesses late payment charges to residential customers and that suspends service before the 26th day after the date of the bill for which collection action is taken;

(II) utility bills issued on or after August 30, 1993; and

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(III) an elderly person, as defined in clause (ii) of this subparagraph, who is a residential customer and who occupies the entire premises for which a delay is requested.

(ii) Definitions.

(I) Elderly person--A person who is 60 years of age or older.

(II) Utility--A gas utility or municipally owned utility, as defined in Texas Utilities Code, Sections 101.003(7), 101.003(8), and 121.001 - 121.006.

(iii) An elderly person may request that the utility implement the delay for either the most recent utility bill or for the most recent utility bill and each subsequent utility bill.

(iv) On request of an elderly person, a utility shall delay without penalty the payment date of a bill for providing utility services to that person until the 25th day after the date on which the bill is issued.

(v) The utility may require the requesting person to present reasonable proof that the person is 60 years of age or older.

(vi) Every utility shall notify its customers of this delayed payment option no less often than yearly. A utility may include this notice with other information provided pursuant to subparagraph (A) of this paragraph.

(F) Budget Billing – The utility offers an optional budget billing plan to moderate seasonal differences in customer bills. The details of the plan are published on the utility's website.

(3) Refusal of service.

(A) Compliance by applicant. Any utility may decline to serve an applicant for whom service is available from previously installed facilities until such applicant has complied with the state and municipal regulations and approved rules and regulations of the utility on file with the commission governing the service applied for or for the following reasons.

(i) Applicant's facilities inadequate. If the applicant's installation or equipment is known to be hazardous or of such character that satisfactory service cannot be given.

(ii) For indebtedness. If the applicant is indebted to any utility for the same kind of service as that applied for; provided, however, that in the event the indebtedness of the applicant for service is in dispute, the applicant shall be served upon complying with the applicable deposit requirement.

(iii) Refusal to make deposit. For refusal to make a deposit if applicant is required to make a deposit under these rules.

(B) Applicant's recourse. In the event that the utility shall refuse to serve an applicant under the provisions of these rules, the utility must inform the applicant of the basis of its refusal and that the applicant may file a complaint with the municipal regulatory authority or commission, whichever is appropriate.

(C) Insufficient grounds for refusal to serve. The following shall not constitute sufficient cause for refusal of service to a present customer or applicant:

(i) delinquency in payment for service by a previous occupant of the premises to be served;

(ii) failure to pay for merchandise or charges for nonutility service purchased from the utility;

(iii) failure to pay a bill to correct previous underbilling due to misapplication of rates more than six months prior to the date of application;

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(iv) violation of the utility's rules pertaining to operation of nonstandard equipment or unauthorized attachments which interfere with the service of others unless the customer has first been notified and been afforded reasonable opportunity to comply with these rules;

(v) failure to pay a bill of another customer as guarantor thereof unless the guarantee was made in writing to the utility as a condition precedent to service; and

(vi) failure to pay the bill of another customer at the same address except where the change of customer identity is made to avoid or evade payment of a utility bill.

(4) Discontinuance of service.

(A) The due date of the bill for utility service shall not be less than 15 days after issuance, or such other period of time as may be provided by order of the regulatory authority. A bill for utility service is delinquent if unpaid by the due date.

(B) A utility may offer an inducement for prompt payment of bills to residential and commercial customers by allowing a discount in the amount of 5.0% for payment of bills within 10 days after their issuance. This provision shall not apply where it conflicts with existing orders or ordinances of the appropriate regulatory authority.

(C) A customer's utility service may be disconnected if the bill has not been paid or a deferred payment plan pursuant to paragraph (2)(D) of this section has not been entered into within five working days after the bill has become delinquent and proper notice has been given. Proper notice consists of a deposit in the United States mail, postage prepaid, or hand delivery to the customer at least five working days prior to the stated date of disconnection, with the words "Termination Notice" or similar language prominently displayed on the notice. The notice shall be provided in English and Spanish as necessary to adequately inform the customer, and shall include the date of termination, a toll-free number for the hours and addresses of locations where payment may be made, and a statement that if a health or other emergency exists, the utility may be contacted concerning the nature of the emergency and the relief available, if any, to meet such emergency.

(D) Utility service may be disconnected for any of the following reasons:

(i) failure to pay a delinquent account or failure to comply with the terms of a deferred payment plan for installment payment of a delinquent account;

(ii) violation of the utility's rules pertaining to the use of service in a manner which interferes with the service of others or the operation of nonstandard equipment, if a reasonable attempt has been made to notify the customer and the customer is provided with a reasonable opportunity to remedy the situation;

(iii) failure to comply with deposit or guarantee arrangements where required by paragraph (5) of this section;

(iv) without notice where a known dangerous condition exists for as long as the condition exists;

(v) tampering with the utility company's meter or equipment or bypassing the same.

(E) Utility service may not be disconnected for any of the following reasons:

(i) delinquency in payment for service by a previous occupant of the premises;

(ii) failure to pay for merchandise or charges for nonutility service by the utility;

(iii) failure to pay for a different type or class of utility service unless the fee for such service is included on the same bill;

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(iv) failure to pay the account of another customer as guarantor thereof, unless the utility has in writing the guarantee as a condition precedent to service;

(v) failure to pay charges arising from an underbilling occurring due to any misapplication of rates more than six months prior to the current billings;

(vi) failure to pay charges arising from an underbilling due to any faulty metering, unless the meter has been tampered with or unless such underbilling charges are due;

(vii) failure to pay an estimated bill other than a bill rendered pursuant to an approved meter reading plan, unless the utility is unable to read the meter due to circumstances beyond its control.

(F) Unless a dangerous condition exists, or unless the customer requests disconnection, service shall not be disconnected on a day, or on a day immediately preceding a day, when personnel of the utility are not available to the public for the purpose of making collections and reconnecting service.

(G) No utility may abandon a residential or commercial customer without written approval from the regulatory authority.

(H) No utility may discontinue service to a delinquent residential customer permanently residing in an individually metered dwelling unit when that customer establishes that discontinuance of service will result in some person residing at that residence becoming seriously ill or more seriously ill if the service is discontinued. Any customer seeking to avoid termination of service under this section must make a written request supported by a written statement from a licensed physician. Both the request and the statement must be received by the utility not more than five working days after the date of delinquency of the bill. The prohibition against service termination provided by this section shall last 20 days from the date of receipt by the utility of the request and statement or such lesser period as may be agreed upon by the utility and the customer. The customer who makes such request shall sign an installment agreement which provides for payment of such service along with timely payments for subsequent monthly billings.

(I) Suspension of Gas Utility Service Disconnection during an Extreme Weather Emergency

(A) Applicability and scope. This rule applies to gas utilities, as defined in Texas Utilities Code, §101.003(7) and §121.001, and to owners, operators, and managers of mobile home parks or apartment houses who purchase natural gas through a master meter for delivery to a dwelling unit in a mobile home park or apartment house, pursuant to Texas Utilities Code, §§124.001-124.002, within the jurisdiction of the Railroad Commission pursuant to Texas Utilities Code, §102.001. For purposes of this section, all such gas utilities and owners, operators and managers of master meter systems shall be referred to as "providers." Providers shall comply with the following service standards. A gas distribution utility shall file amended service rules incorporating these standards with the Railroad Commission in the manner prescribed by law.

(B) Disconnection prohibited. Except where there is a known dangerous condition or a use of natural gas service in a manner that is dangerous or unreasonably interferes with service to others, a provider shall not disconnect natural gas service to:

(1) a delinquent residential customer during an extreme weather emergency. An extreme weather emergency means a day when the previous day's highest temperature did not exceed 32 degrees Fahrenheit and the temperature is predicted to remain at or below that level for the next 24 hours according to the nearest National Weather Station for the county where the customer takes service.

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(2) a delinquent residential customer for a billing period in which the provider receives a written pledge, letter of intent, purchase order, or other written notification from an energy assistance provider that it is forwarding sufficient payment to continue service; or

(3) a delinquent residential customer on a weekend day, unless personnel or agents of the provider are available for the purpose of receiving payment or making collections and reconnecting service.

(C) Payment plans. Providers shall defer collection of the full payment of bills that are due during an extreme weather emergency until after the emergency is over, and shall work with customers to establish a payment schedule for deferred bills as set forth in paragraph (2)(D) of §7.45 of this title, relating to Quality of Service.

(D) Notice. Beginning in the September or October billing periods utilities and owners, operators, or managers of master metered systems shall give notice as follows:

(1) Each utility shall provide a copy of this rule to the social services agencies that distribute funds from the Low Income Home Energy Assistance Program within the utility's service area.

(2) Each utility shall provide a copy of this rule to any other social service agency of which the provider is aware that provides financial assistance to low income customers in the utility's service area.

(3) Each utility shall provide a copy of this rule to all residential customers of the utility and customers who are owners, operators, or managers of master metered systems.

(4) Owners, operators, or managers of master metered systems shall provide a copy of this rule to all of their customers.

(E) In addition to the minimum standards specified in this section, providers may adopt additional or alternative requirements if the provider files a tariff with the Commission pursuant to §7.315 of this title (relating to Filing of Tariffs). The Commission shall review the tariff to ensure that at least the minimum standards of this section are met.

(5) Applicant deposit.

(A) Establishment of credit for residential applicants. The utility may require a residential applicant for service to satisfactorily establish credit but such establishment of credit shall not relieve the customer from complying with rules for prompt payment of bills. Subject to these rules, a residential applicant shall not be required to pay a deposit:

(i) if the residential applicant has been a customer of any utility for the same kind of service within the last two years and is not delinquent in payment of any such utility service account and during the last 12 consecutive months of service did not have more than one occasion in which a bill for such utility service was paid after becoming delinquent and never had service disconnected for nonpayment;

(ii) if the residential applicant furnishes in writing a satisfactory guarantee to secure payment of bills for the service required; or

(iii) if the residential applicant furnishes in writing a satisfactory credit rating by appropriate means, including, but not limited to, the production of valid, generally acceptable credit cards,

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letters of credit reference, the names of credit references which may be quickly and inexpensively contacted by the utility, or ownership of substantial equity.

(B) Reestablishment of credit. Every applicant who has previously been a customer of the utility and whose service has been discontinued for nonpayment of bills shall be required before service is rendered to pay a connect charge plus all his amounts due the utility or execute a written deferred payment agreement, if offered, and reestablish credit as provided in subparagraph (A) of this paragraph.

(C) Amount of deposit and interest for residential service, and exemption from deposit.

(i) The utility shall waive any deposit requirement for residential service for an applicant who has been determined to be a victim of family violence as defined in Texas Family Code, Section 71.004, by a family violence center, by treating medical personnel, by law enforcement agency personnel, or by a designee of the Attorney General in the Crime Victim Services Division of the Office of the Attorney General. This determination shall be evidenced by the applicant's submission of a certification letter developed by the Texas Council on Family Violence and made available on its web site.

(ii) The required deposit shall not exceed an amount equivalent to one-sixth of the estimated annual billings. If actual use is at least twice the amount of the estimated billings, a new deposit requirement may be calculated and an additional deposit may be required within two days. If such additional deposit is not made, the utility may disconnect service under the standard disconnection procedure for failure to comply with deposit requirements. In the absence of billing history, the default deposit amount is $90.00.

(iii) All applicants for residential service who are 65 years of age or older will be considered as having established credit if such applicant does not have an outstanding account balance with the utility or another utility for the same utility service which accrued within the last two years. No cash deposit shall be required of such applicant under these conditions.

(iv) Each utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits according to the rate as established by law. If refund of deposit is made within 30 days of receipt of deposit, no interest payment is required. If the utility retains the deposit more than 30 days, payment of interest shall be made retroactive to the date of deposit.

(I) Payment of interest to the customer shall be annually or at the time the deposit is returned or credited to the customer's account.

(II) The deposit shall cease to draw interest on the date it is returned or credited to the customer's account.

(D) The utility may require a deposit from a commercial or industrial customer sufficient to reasonably protect it against the assumed risk, provided such a policy is applied in a uniform and nondiscriminatory manner.

(E) Records of deposits.

(i) The utility shall keep records to show:

(I) the name and address of each depositor;

(II) the amount and date of the deposit; and

(III) each transaction concerning the deposit.

(ii) The utility shall issue a receipt of deposit to each applicant from whom a deposit is received and shall provide means whereby a depositor may establish claim if the receipt is lost.

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(iii) A record of each unclaimed deposit must be maintained for at least four years, during which time the utility shall make a reasonable effort to return the deposit.

(F) Refund of deposit.

(i) If service is not connected or after disconnection of service, the utility shall promptly and automatically refund the customer's deposit plus accrued interest on the balance, if any, in excess of the unpaid bills for service furnished. The transfer of service from one premise to another within the service area of the utility shall not be deemed a disconnection within the meaning of these rules, and no additional deposit may be demanded unless permitted by these rules.

(ii) When the customer has paid bills for service for 12 consecutive residential bills without having service disconnected for nonpayment of bill and without having more than two occasions in which a bill was delinquent and when the customer is not delinquent in the payment of the current bills, the utility shall promptly and automatically refund the deposit plus accrued interest to the customer in the form of cash or credit to a customer's account.

(G) Upon sale or transfer of utility or company. Upon the sale or transfer of any public utility or operating units thereof, the seller shall file with the commission under oath, in addition to other information, a list showing the names and addresses of all customers served by such utility or unit who have to their credit a deposit, the date such deposit was made, the amount thereof, and the unpaid interest thereon.

(H) Complaint by applicant or customer. The utility shall direct its personnel engaged in initial contact with an applicant or customer for service seeking to establish or reestablish credit under the provisions of these rules to inform the customer, if dissatisfaction is expressed with the utility's decision, of the customer's right to file a complaint with the regulatory authority thereon.

(6) Billing.

(A) Bills for gas service shall be rendered monthly, unless otherwise authorized or unless service is rendered for a period less than a month. Bills shall be rendered as promptly as possible following the reading of meters.

(B) The customer's bill must show all the following information. The information must be arranged and displayed in such a manner as to allow the customer to compute his bill with the applicable rate schedule. The applicable rate schedule must be mailed to the customer on request of the customer. A utility may exhaust its present stock of nonconforming bill forms before compliance is required by this section:

(i) if the meter is read by the utility, the date and reading of the meter at the beginning and end of the period for which rendered;

(ii) the number and kind of units billed;

(iii) the applicable rate schedule title or code;

(iv) the total base bill;

(v) the total of any adjustments to the base bill and the amount of adjustments per billing unit;

(vi) the date by which the customer must pay the bill to get prompt payment discount, if applicable;

(vii) the total amount due before and after any discount for prompt payment, if applicable, within a designated period;

(viii) a distinct marking to identify an estimated bill.

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(C) Where there is good reason for doing so, estimated bills may be submitted, provided that an actual meter reading is taken at least every six months. For the second consecutive month in which the meter reader is unable to gain access to the premises to read the meter on regular meter reading trips, or in months where meters are not read otherwise, the utility must provide the customer with a postcard and request that the customer read the meter and return the card to the utility if the meter is of a type that can be read by the customer without significant inconvenience or special tools or equipment. If such a postcard is not received by the utility in time for billing, the utility may estimate the meter reading and render the bill accordingly.

(D) Disputed bills.

(i) In the event of a dispute between the customer and the utility regarding the bill, the utility must forthwith make such investigation as is required by the particular case and report the results thereof to the customer. If the customer wishes to obtain the benefits of clause (ii) of this subparagraph, notification of the dispute must be given to the utility prior to the date the bill becomes delinquent. In the event the dispute is not resolved, the utility shall inform the customer of the complaint procedures of the appropriate regulatory authority.

(ii) Notwithstanding any other subsection of this section, the customer shall not be required to pay the disputed portion of the bill which exceeds the amount of that customer's average usage for the billing period at current rates until the earlier of the following: resolution of the dispute or the expiration of the 60-day period beginning on the day the disputed bill is issued. For purposes of this section only, the customer's average usage for the billing period shall be the average of the customer's usage for the same billing period during the preceding two years. Where no previous usage history exists, the average usage shall be estimated on the basis of usage levels of similar customers and under similar conditions.

(7) Meters.

(A) Meter requirements.

(i) Use of meter. All gas sold by a utility must be charged for by meter measurements, except where otherwise provided for by applicable law, regulation of the regulatory authority, or tariff.

(ii) Installation by utility. Unless otherwise authorized by the regulatory authority, the utility must provide and install and will continue to own and maintain all meters necessary for measurement of gas delivered to its residential and commercial customers.

(iii) Standard type. No utility may furnish, set up, or put in use any meter which is not reliable and of a standard type which meets generally accepted industry standards; provided, however, special meters not necessarily conforming to such standard types may be used for investigation, testing, or experimental purposes.

(iv) Access to premises and access to company owned meters and service lines. Atmos Energy, Mid-Tex Division' representatives shall have the right at all reasonable hours to enter upon the premises and property of a customer to read a company meter, to remove, to inspect, or to make necessary repairs and adjustments to, or replacements of, service lines, meter loop, and any property of the utility located thereon, and for any other purpose connected with the utility's operation. The Atmos Energy, Mid-Tex Division representative shall have the right at all time to enter upon the premises and property of the customer in emergencies pertaining to the company's service. All animals which might hinder the performance of such operations on the customer's property shall be kept away from such operations by the customer upon notice by Atmos Energy, Mid-Tex Division' representatives of their intention to enter upon customer's premises.

(B) Meter records. The utility must keep the following records:

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(i) Meter equipment records. The utility must keep a record of all its meters, showing the customer's address and date of the last test.

(ii) Records of meter tests. All meter tests must be properly referenced to the meter record provided for therein. The record of each test made on request of a customer must show the identifying number and constants of the meter, the standard meter and other measuring devices used, the date and kind of test made, by whom made, the error (or percentage of accuracy) at each load tested, and sufficient data to permit verification of all calculations.

(iii) Meter readings--meter unit location. In general, each meter must indicate clearly the units of service for which charge is made to the customer.

(iv) Meter tests on request of customer.

(I) The utility must, upon request of a customer, make a test of the accuracy of the meter serving that customer. The utility must inform the customer of the time and place of the test and permit the customer or his authorized representative to be present if the customer so desires. If no such test has been performed within the previous four years for the same customer at the same location, the test is to be performed without charge. If such a test has been performed for the same customer at the same location within the previous four years, the utility is entitled to charge a fee for the test not to exceed $15 or such other fee for the testing of meters as may be set forth in the utility's tariff properly on file with the regulatory authority. The customer must be properly informed of the result of any test on a meter that serves him.

(II) Notwithstanding subclause (I) of this clause, if the meter is found to be more than nominally defective, to either the customer's or the utility's disadvantage, any fee charged for a meter test must be refunded to the customer. More than nominally defective means a deviation of more than 2.0% from accurate registration for residential and commercial customers and 1% for industrial customers.

(v) Bill adjustments due to meter error.

(I) If any meter test reveals a meter to be more than nominally defective, the utility must correct previous readings consistent with the inaccuracy found in the meter for the period of either:

(-a-) the last six months; or

(-b-) the last test of the meter, whichever is shorter. Any resulting underbillings or overbillings are to be corrected in subsequent bills, unless service is terminated, in which event a monetary adjustment is to be made. This requirement for a correction may be foregone by the utility if the error is to the utility's disadvantage.

(II) If a meter is found not to register for any period of time, the utility may make a charge for units used but not metered for a period not to exceed three months previous to the time the meter is found not to be registering. The determination of amounts used but not metered is to be based on consumption during other like periods by the same customer at the same location, when available, and on consumption under similar conditions at the same location or of other similarly situated customers, when not available.

(8) New construction.

(A) Standards of construction. The utility is to construct, install, operate, and maintain its plant, structures, equipment, and lines in accordance with the provisions of such codes and standards as are generally accepted by the industry, as modified by rule or regulation of the regulatory authority or

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otherwise by law, and in such manner to best accommodate the public and to prevent interference with service furnished by other public utilities insofar as practical.

(B) Line extension and construction charge policy. In the absence of a line extension policy specific to a city franchise agreement, the following policy shall apply:

Atmos Energy shall be required to extend distribution mains in any Public Rights-of-Way up to seventy-five feet (75') for any one residential customer, only if such customer, at a minimum, uses gas for unsupplemented space heating and water heating. The utility may require, on a consistent and non-discriminatory basis, pre-payment, reimbursement, or adequate security for all costs (including, but not limited to, materials, labor, allocated overhead, permit costs and right-of-way acquisition costs) of extending its existing pipeline system to serve a new customer to the extent that extension would exceed seventy-five feet (75').

The applicable provisions of city franchise agreements, which set forth line extension and construction charge policies that differ from the above policy are on file with the applicable municipality and the Railroad Commission of Texas.

The utility reserves the sole discretion to designate routes of all new extensions and the construction materials and manner of fabrication and installation. The utility, on a consistent and non-discriminatory basis, may provide refunds, credits, or security releases based upon facts such as additional customers subsequently attaching, the level of sales experiences through the new facility, or other criteria chosen by the utility. The utility may apply similar cost responsibility and arrangements to a customer requesting an increase in the capacity of existing facilities to accommodate an increase in the customer's service requirements. In no event will contribution in aid of construction be required of any residential customer unless provided for in this extension policy.

(C) Response to request for service. Every gas utility must serve each qualified applicant for residential or commercial service within its service area as rapidly as practical. As a general policy, those applications not involving line extensions or new facilities should be filled within seven working days. Those applications for individual residential service requiring line extensions should be filled within 90 days unless unavailability of materials or other causes beyond the control of the utility result in unavoidable delays. In the event that residential service is delayed in excess of 90 days after an applicant has met credit requirements and made satisfactory arrangements for payment of any required construction charges, a report must be made to the regulatory authority listing the name of the applicant, location, and cause for delay. Unless such delays are due to causes which are reasonably beyond the control of the utility, a delay in excess of 90 days may be found to constitute a refusal to serve.

(9) Non-Liability

(A) Furnishing of Gas. The Company shall not be liable for any loss or damage caused by variation in gas pressure, defects in pipes, connections and appliances, escape or leakage of gas, sticking of valves or regulators, or for any other loss or damage not caused by the Company's negligence arising out of or incident to the furnishing of gas to any Consumer.

(B) After Point of Delivery. Company shall not be liable for any damage or injury resulting from gas or its use after such gas leaves the point of delivery other than damage caused by the fault of the Company in the manner of installation of the service lines, in the manner in which such service lines are repaired by the Company, and in the negligence of the Company in maintaining its meter loop. All other risks after the gas left the point of delivery shall be assumed by the Consumer, his agents, servants, employees, or other persons.

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(C) Reasonable Diligence. The Company agrees to use reasonable diligence in rendering continuous gas service to all Consumers, but the Company does not guarantee such service and shall not be liable for damages resulting from any interruption to such service.

(D) Force Majeure. Company shall not be liable for any damage or loss caused by stoppage or curtailment of the gas supply pursuant to order of a governmental agency having jurisdiction over Company or Company's suppliers, or caused by an event of force majeure. The term "force majeure" as employed herein means acts of God; strikes, lockouts, or other industrial disturbances; acts of the public enemy; wars; blockades; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; storms; floods; washouts; arrests and restraints of the government, either federal or state, civil or military; civil disturbances; explosions; breakage or accident to machinery or lines of pipe; freezing of wells or lines of pipe; shortage of gas supply, whether resulting from inability or failure of a supplier to deliver gas; partial or entire failure of natural gas wells or gas supply; depletion of gas reserves; and any other causes, whether of the kind herein enumerated or otherwise.

Exhibit B
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ATMOS ENERGY CORP., MID-TEX DIVISION
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description		Current Revenue		Proposed Revenue		Total Change	Percent Change
	(a)		(b)		(c)		(d)	(e)
1	**RESIDENTIAL**							
2	Rate Characteristics:							
3	Customer Charge	$	26.24	$	17.00			
4	Consumption Charge (Ccf)	$	0.04071	$	0.18653			
5								
6	Rider GCR Part A	$	0.2853	$	0.2853			
7	Rider GCR Part B	$	0.3349	$	0.3349			
8								
9	Number of Bills		681,828		681,828			
10	Total Volumes (Ccf)		25,720,063		25,720,063			
11								
12	Revenue:							
13	Customer Charge	$	17,891,167	$	11,591,076			
14	Consumption Charge (Ccf)		1,047,064		4,797,563			
15	**Total Margin Revenue**	$	18,938,230	$	16,388,639			
16	Rider GCR - Part A		7,338,791		7,338,791			
17	Rider GCR - Part B		8,614,701		8,614,701			
18	**Total Gas Cost**	$	15,953,492	$	15,953,492			
19	Revenue Related Taxes[1]		2,304,260		2,135,884			
20	**Total Residential Revenue**	$	37,195,983	$	34,478,016	$	(2,717,967)	-7.31%
21								
22	**COMMERCIAL**							
23	Rate Characteristics:							
24	Customer Charge	$	61.49	$	40.00			
25	Consumption Charge (Ccf)	$	0.06278	$	0.10494			
26								
27	Rider GCR Part A	$	0.2853	$	0.2853			
28	Rider GCR Part B	$	0.2415	$	0.2415			
29								
30	Number of Bills		25,548		25,548			
31	Total Volumes (Ccf)		8,580,391		8,580,391			
32								
33	Revenue:							
34	Customer Charge	$	1,570,947	$	1,021,920			
35	Consumption Charge (Ccf)		538,677		900,426			
36	**Total Margin Revenue**	$	2,109,623	$	1,922,346			
37	Rider GCR - Part A		2,448,271		2,448,271			
38	Rider GCR - Part B		2,072,398		2,072,398			
39	**Total Gas Cost**	$	4,520,670	$	4,520,670			
40	Revenue Related Taxes[1]		437,867		425,499			
41	**Total Commercial Revenue**	$	7,068,160	$	6,868,515	$	(199,645)	-2.82%
42								

ATMOS ENERGY CORP., MID-TEX DIVISION
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description		Current Revenue		Proposed Revenue		Total Change	Percent Change
	(a)		(b)		(c)		(d)	(e)
43	**INDUSTRIAL & TRANSPORTATION**							
44	Rate Characteristics:							
45	Customer Charge	$	1,075.48	$	784.00			
46	Consumption Charge (MMBTU)							
47	Block 1	$	0.2353	$	0.3701			
48	Block 2	$	0.1724	$	0.2712			
49	Block 3	$	0.0370	$	0.0582			
50								
51	Rider GCR Part A	$	2.7865	$	2.7865			
52	Rider GCR Part B	$	0.5314	$	0.5314			
53								
54	Number of Bills		456		456			
55	Total Volumes (MMBTU)							
56	Block 1		528,424		528,424			
57	Block 2		721,697		721,697			
58	Block 3		2,495,038		2,495,038			
59								
60	Sales Volumes		561,202		561,202			
61								
62	Revenue:							
63	Customer Charge	$	490,419	$	357,504			
64	Consumption Charge (MMBTU)							
65	Block 1		124,338		195,570			
66	Block 2		124,421		195,724			
67	Block 3		92,316		145,211			
68	**Total Margin Revenue**	$	831,494	$	894,009			
69	Rider GCR - Part A		1,563,766		1,563,766			
70	Rider GCR - Part B		1,990,140		1,990,140			
71	**Total Gas Cost**	$	3,553,906	$	3,553,906			
72	Revenue Related Taxes[1]		289,613		293,742			
73	**Total Industrial & Transportation Revenue**	$	4,675,013	$	4,741,657	$	66,644	1.43%
74								
75	**Total Gas Revenue**	$	48,939,156	$	46,088,188	$	(2,850,968)	-5.83%
76								
77	Note:							
78	1. Rider FF & TAX		6.6040%					

EXHIBIT C

ATMOS ENERGY CORP., MID-TEX DIVISION
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Acct.	Description	Plant Balances	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c) - (d)	(f)
1	Mid-Tex:					
2		Distribution Plant				
3	374	Land	$ 969,751	$ 90	$ 969,661	0.00%
4	374	Land Rights	3,436,235	1,496,141	1,940,094	0.98%
5	375	Structures & Improvements	1,593,440	1,000,412	593,028	1.71%
6	376.00	Mains - Cathodic Protection	176,245,240	48,934,906	127,310,335	1.85%
7	376.01	Mains - Steel	623,546,751	211,430,322	412,116,430	3.97%
8	376.02	Mains - Plastic	1,617,624,079	430,076,650	1,187,547,429	2.21%
9	378	M&R Station Equipment - General	72,217,273	24,532,123	47,685,150	3.09%
10	379	M&R Station Equipment - City Gate	5,737,696	3,197,871	2,539,825	1.88%
11	380	Services	1,263,780,605	382,969,660	880,810,944	3.67%
12	381	Meters	269,036,417	64,015,902	205,020,515	3.31%
13	382	Meter Installations	124,150,788	34,256,337	89,894,450	3.66%
14	383	House Regulators	92,306,262	21,942,045	70,364,218	3.50%
15	385	Industrial M&R Station Equipment	2,777,560	327,091	2,450,469	2.80%
16		Total Mid-Tex Distribution Plant (Sum Ln 3 through Ln 15)	$ 4,253,422,097	$ 1,224,179,549	$ 3,029,242,549	
17						
18		General Plant				
19	302	Franchises & Consents	$ 18,896	$ 7,231	$ 11,665	0.00%
20	303	Computer Software	709,231	797,603	(88,372)	0.00%
21	389	Land	5,141,158	114	5,141,045	0.00%
22	390	Structures & Improvements	58,308,484	15,275,690	43,032,795	2.54%
23	390	Air Conditioning Equipment	323,282	52,729	270,553	2.75%
24	391	Office Furniture & Equipment	10,681,124	959,242	9,721,882	4.00%
25	392	Transportation Equipment	1,744,975	725,919	1,019,056	9.04%
26	393	Stores Equipment	102,553	23,454	79,098	4.00%
27	394	Tools, Shop, and Garage Equipment	23,058,833	6,393,734	16,665,100	5.00%
28	395	Laboratory Equipment	361,884	208,926	152,958	10.00%
29	396	Power Oper. Tool & Work Equipment	1,903,358	676,434	1,226,924	7.24%
30	397	Radio Communication Equipment	5,675,755	3,771,085	1,904,669	6.67%
31	398	Miscellaneous Equipment	1,879,501	794,182	1,085,319	2.50%
32	399	Other Tangible Property	341,848	136,991	204,857	14.29%
33	399.01	Other Tangible Property-Servers Hardware	80,686	80,686	-	14.29%
34	399.02	Other Tangible Property-Servers Software	258,852	72,896	185,956	14.29%
35	399.03	Other Tangible Property-Network-Hardware	1,404,540	491,188	913,351	11.11%
36	399.06	Other Tangible Property-PC Hardware	11,980,671	5,707,220	6,273,451	14.29%
37	399.07	Other Tangible Property-PC Software	701,337	501,919	199,418	14.29%

EXHIBIT C

ATMOS ENERGY CORP., MID-TEX DIVISION
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Acct. (a)	Description (b)	Plant Balances (c)	Accumulated Depreciation (d)	Net Plant (e) = (c) - (d)	Depreciation Rate (f)
38	399.08	Other Tangible Property-Application Software	5,588,144	3,159,690	2,428,454	14.29%
39	RWIP	Retirement Work In Progress	-	(1,579,392)	1,579,392	
40		Total Mid-Tex General Plant (Sum Ln 19 through Ln 39)	$ 130,265,112	$ 38,257,542	$ 92,007,570	
41						
42		Total Mid-Tex Direct Plant (Ln 16 + Ln 40)	$ 4,383,687,210	$ 1,262,437,091	$ 3,121,250,119	
43						
44	SSU - Customer Support (Div 012):					
45	General Plant					
46	389	Land & Land Rights	$ 1,498,341	$ -	$ 1,498,341	0.00%
47	390	Structures & Improvements	6,597,144	845,943	5,751,202	3.34%
48	390.09	Improvements to Leased Premises	1,470,386	832,133	638,253	4.06%
49	391	Office Furniture & Equipment	1,213,850	399,157	814,692	4.03%
50	397	Communication Equipment - Telephone	997,308	510,591	486,717	5.54%
51	398	Miscellaneous Equipment	36,499	5,682	30,817	1.72%
52	399	Other Tangible Property	327,984	217,854	110,130	13.84%
53	399.01	Other Tangible Property-Servers Hardware	5,391,936	2,257,878	3,134,057	8.62%
54	399.02	Other Tangible Property-Servers Software	1,055,078	552,182	502,896	8.78%
55	399.03	Other Tangible Property-Network-Hardware	328,015	170,113	157,902	8.72%
56	399.06	Other Tangible Property-PC Hardware	521,209	252,300	268,908	8.78%
57	399.07	Other Tangible Property-PC Software	99,176	64,976	34,200	6.64%
58	399.08	Other Tangible Property-Application Software	46,987,217	13,539,253	33,447,965	6.57%
59		Total SSU Customer Support (Sum Ln 46 through Ln 58)	$ 66,524,144	$ 19,648,062	$ 46,876,082	
60						
61	SSU - Customer Support (Div 012):					
62	General Plant					
63	Charles K. Vaughn Center					
64	389	Land & Land Rights	$ 1,442,551	$ -	$ 1,442,551	0.00%
65	390.10	Structures & Improvements	9,410,198	1,956,188	7,454,010	3.34%
66	391.10	Office Furniture & Equipment	291,181	24,703	266,478	4.03%
67	392.10	Transportation Equipment	73,633	70,406	3,226	28.96%
68	394.10	Tools, Shop, and Garage Equipment	307,542	66,306	241,236	8.88%
69	395.10	Laboratory Equipment	18,071	10,867	7,204	10.00%
70	397.10	Communication Equipment	222,909	109,337	113,571	5.54%
71	398.10	Miscellaneous Equipment	389,445	99,600	289,845	1.72%
72	399.10	Other Tangible Property	259,734	100,214	159,520	13.84%
73	399.16	Other Tangible Property-PC Hardware	196,746	172,014	24,732	8.78%
74	399.17	Other Tangible Property-PC Software	79,445	53,254	26,192	6.64%
75	399.18	Other Tangible Property-Application Software	15,722	7,417	8,305	15.89%
76		Total SSU CKV Center (Sum Ln 64 through Ln 75)	$ 12,707,179	$ 2,670,308	$ 10,036,870	
77						

EXHIBIT C

ATMOS ENERGY CORP., MID-TEX DIVISION
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Acct. (a)	Description (b)	Plant Balances (c)	Accumulated Depreciation (d)	Net Plant (e) = (c) - (d)	Depreciation Rate (f)
78	SSU - General Office (Div 002):					
79	General Plant					
80	390	Structures & Improvements	$ 539,292	$ 179,862	$ 359,430	3.34%
81	390.09	Improvements to Leased Premises	3,323,586	3,346,087	(22,502)	4.06%
82	391	Office Furniture & Equipment	1,785,700	622,880	1,162,820	4.03%
83	391.02	Remittance Processing Equipment	-	0	(0)	4.03%
84	391.03	Office Furniture & Equipment	-	0	(0)	4.03%
85	392	Transportation Equipment	2,723	1,941	782	28.96%
86	393	Stores Equipment	-	-	-	10.00%
87	394	Tools & Work Equipment	29,067	11,269	17,798	8.88%
88	395	Laboratory Equipment	-	-	-	10.00%
89	397	Communication Equipment - Telephone	397,133	193,186	203,947	5.54%
90	398	Miscellaneous Equipment	52,160	16,313	35,847	1.72%
91	399	Other Tangible Property	62,003	62,044	(42)	13.84%
92	399.01	Other Tangible Property-Servers Hardware	14,122,193	7,569,076	6,553,117	8.62%
93	399.02	Other Tangible Property-Servers Software	7,262,029	6,345,288	916,742	8.78%
94	399.03	Other Tangible Property-Network-Hardware	1,356,055	914,075	441,980	8.72%
95	399.04	Other Tangible Property-CPU	-	-	-	26.26%
96	399.05	Other Tangible Property-MF Hardware	-	-	-	15.76%
97	399.06	Other Tangible Property-PC Hardware	939,219	379,417	559,801	8.78%
98	399.07	Other Tangible Property-PC Software	562,935	76,217	486,718	6.64%
99	399.08	Other Tangible Property-Application Software	25,355,007	11,717,687	13,637,320	6.57%
100	399.09	Other Tangible Property-System Software	14,998	16,611	(1,613)	6.21%
101	399.24	Other Tangible Property-GenStartupCost	-	-	-	15.89%
102		Total SSU General Office (Sum Ln 80 through Ln 101)	$ 55,804,099	$ 31,451,954	$ 24,352,145	
103						
104	SSU - General Office (Div 002):					
105	General Plant					
106	Greenville Data Center (010.11520)					
107	390.05	G-Structures & Improvements	$ 1,281,518	$ 483,815	$ 797,704	3.34%
108	391.04	G-Office Furniture & Equip.	8,891	4,213	4,678	4.03%
109		Total SSU Greenville Data Center (Sum Ln 80 through Ln 101)	$ 1,290,410	$ 488,028	$ 802,382	
110						

EXHIBIT C

ATMOS ENERGY CORP., MID-TEX DIVISION
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Acct. (a)	Description (b)	Plant Balances (c)	Accumulated Depreciation (d)	Net Plant (e) = (c) - (d)	Depreciation Rate (f)
111	SSU - General Office (Div 002):					
112	General Plant					
113	Distribution and Marketing					
114	391.20	Office Furniture & Equipment-AEAM	$ 89,351	$ 37,968	$ 51,383	4.03%
115	394.20	Tools & Work Equipment-AEAM	-	184	(184)	8.88%
116	397.20	Communication Equipment-AEAM	4,192	1,672	2,520	5.54%
117	398.20	Miscellaneous Equipment-AEAM	3,510	335	3,175	1.72%
118	399.21	Other Tangible Property-Servers Hardware-AEAM	773,890	521,281	252,609	8.62%
119	399.22	Other Tangible Property-Servers Software-AEAM	456,693	204,582	252,111	8.78%
120	399.23	Other Tangible Property-Network-Hardware-AEAM	28,587	19,628	8,959	8.72%
121	399.26	Other Tangible Property-PC Hardware-AEAM	149,362	19,285	130,076	8.78%
122	399.28	Other Tangible Property-Application Software-AEAM	9,330,573	5,329,213	4,001,360	6.57%
123		Total SSU Distribution & Marketing (Sum Ln 114 through Ln 122)	$ 10,836,158	$ 6,134,149	$ 4,702,008	
124						
125	SSU - General Office (Div 002):					
126	General Plant					
127	Align Pipe Projects					
128	399.31	Other Tangible Property-Servers Hardware-Align	$ 19,022	$ 2,529	$ 16,493	8.62%
129	399.32	Other Tangible Property-Servers Software-Align	22,123	2,110	20,013	8.78%
130	399.38	Other Tangible Property-Application Software-Align	1,120,918	187,912	933,006	6.57%
131		Total SSU Aligne Pipe Projects (Sum Ln 128 through Ln 130)	$ 1,162,063	$ 192,551	$ 969,512	
132						
133		Total Allocated SSU Plant (Sum Lns 59, 76, 102, 109, 123, 131)	148,324,053	60,585,052	87,739,000	
134						
135		Total Mid-Tex Net Plant (Ln 42 + Ln 133)	$ 4,532,011,263	$ 1,323,022,143	$ 3,208,989,119	
136						
137		Rate Base Adjustments			$ 11,562,966	
138						
139		Note:				
140		1. The SSU Plant Balances and Accumulated Depreciation reflect allocated amounts to Mid-Tex.				

Exhibit D

ATMOS ENERGY CORP., MID-TEX DIVISION
RATE BASE ADJUSTMENTS
TEST YEAR ENDING DECEMBER 31, 2017
AMORTIZATION OF PROTECTED REGULATORY LIABILITY

Line No.	Year Ended Dec. 31	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount	Balance as of December 31, 2017
	(a)	(b)	(c)	(d)	(e)
1	2017			$ 289,813,479	$ 289,813,479
2	2018	$ 289,813,479	$ 12,075,562	277,737,918	
3	2019	277,737,918	12,075,562	265,662,356	
4	2020	265,662,356	12,075,562	253,586,795	
5	2021	253,586,795	12,075,562	241,511,233	
6	2022	241,511,233	12,075,562	229,435,671	
7	2023	229,435,671	12,075,562	217,360,110	
8	2024	217,360,110	12,075,562	205,284,548	
9	2025	205,284,548	12,075,562	193,208,986	
10	2026	193,208,986	12,075,562	181,133,425	
11	2027	181,133,425	12,075,562	169,057,863	
12	2028	169,057,863	12,075,562	156,982,301	
13	2029	156,982,301	12,075,562	144,906,740	
14	2030	144,906,740	12,075,562	132,831,178	
15	2031	132,831,178	12,075,562	120,755,616	
16	2032	120,755,616	12,075,562	108,680,055	
17	2033	108,680,055	12,075,562	96,604,493	
18	2034	96,604,493	12,075,562	84,528,932	
19	2035	84,528,932	12,075,562	72,453,370	
20	2036	72,453,370	12,075,562	60,377,808	
21	2037	60,377,808	12,075,562	48,302,247	
22	2038	48,302,247	12,075,562	36,226,685	
23	2039	36,226,685	12,075,562	24,151,123	
24	2040	24,151,123	12,075,562	12,075,562	
25	2041	12,075,562	12,075,562	(0)	
26					
27	Revenue Related Tax Factor		6.60%	See WP_F-5.1	
28	Revenue Related Taxes on Annual Amortization		$ 797,474	Amortization * Tax Factor	
29	Amortization Including Revenue Related Taxes		$ 12,873,035	Amortization + Taxes	
30					
31	Note:				
32	1. The annual amortization of a 24 year recovery period is based on the Reverse South Georgia Method.				

EXHIBIT F

ATMOS ENERGY CORP., MID-TEX DIVISION
PROPOSED TARIFF STRUCTURE
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	(a)	(b)	(c)	(d)
1	Proposed Base Revenue Requirements:		$ 606,233,428	
2	Less: Amortization of Excess Accumulated Deferred Income Taxes		(12,075,562)	
5	Net Proposed Base Revenue Requirements		$ 594,157,866	
6				
7				
8		Revenue Requirements	Allocations	
9	Residential	$ 338,431,486	77.95%	Per GUD 10170
10	Commercial	84,223,622	19.40%	Per GUD 10170
11	Industrial and Transportation	11,490,316	2.65%	Per GUD 10170
12	Net Revenue Requirements GUD No. 10170	$ 434,145,424	100.00%	
13				
14	Net Proposed Base Revenue Requirements by Class:			
15	Residential	$ 463,166,760	77.95%	Line 4 x Line 8
16	Commercial	115,265,818	19.40%	Line 4 x Line 9
17	Industrial and Transportation	15,725,287	2.65%	Line 4 x Line 10
18	Net Proposed Revenue Requirements by Class	$ 594,157,866	100.00%	
19				
20		Residential	Commercial	Industrial & Transport
21	Customer Charge Revenue:			
22	Proposed Monthly Customer Charge	$ 17.00	$ 40.00	$ 784.00
23	Annual Number of Bills	18,314,544	1,470,024	9,624
24				
25	Customer Charge Revenue	$ 311,347,248	$ 58,800,960	$ 7,545,216
26				
27	Revenue to be collected through Consumption Charge	$ 151,819,512	$ 56,464,858	$ 8,180,071
28				
29	Block 1 Usage	813,908,871	538,042,507	10,303,163
30	Block 2 Usage			11,551,493
31	Block 3 Usage			21,195,777
32				
33	Block 1 Rate	$ 0.18653	$ 0.10494	$ 0.3701
34	Block 2 Rate			$ 0.2712
35	Block 3 Rate			$ 0.0582
36				
37	Consumption Charge Revenue	$ 151,818,422	$ 56,462,181	$ 8,179,560
38				
39	Total Revenue	$ 463,165,670	$ 115,263,141	$ 15,724,776

CHRISTI CRADDICK, *CHAIRMAN*
RYAN SITTON, *COMMISSIONER*
WAYNE CHRISTIAN, *COMMISSIONER*

DANA AVANT LEWIS, *DIRECTOR*

RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION

December 12, 2018

TO: All Parties of Record

RE: **GUD No. 10743**, *Statement of Intent Filed by Atmos Energy Corporation (Atmos) to Change Gas Utility Rates Within the Unincorporated Areas of its West Texas Division*

HEARINGS LETTER NO. 16
Final Order

Enclosed is a copy of the Final Order, with attachment, signed at the December 11, 2018 conference.

Sincerely,

John Dodson
Administrative Law Judge

Attachment

cc: Service List

Service List

GUD No. 10743
Statement of Intent Filed by Atmos Energy Corporation (Atmos) to Change Gas Utility Rates Within the Unincorporated Areas of its West Texas Division

Administrative Law Judge: John Dodson
Technical Examiners: James Currier and Rose Ruiz

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Via Courtesy Email

Railroad Commission Staff (Intervenor)
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16 TEX. ADMIN. CODE § 1.7 (Ex Parte Communications):

(a) Ex parte communications are prohibited in contested cases as provided in the APA and other applicable rules including the Texas Disciplinary Rules of Professional Conduct.

(b) Each party shall provide all other parties with a copy of all documents submitted to an examiner.

(1) The attachment of a certificate of service stating that a document was served on a party creates a rebuttable presumption that the named party was provided a copy.

(2) Failure to provide a copy to all other parties may result in rejection and return of the document without consideration.

GUD NO. 10743

STATEMENT OF INTENT FILED BY	**§**	**BEFORE THE**
ATMOS ENERGY CORP. TO CHANGE	**§**	
GAS UTILITY RATES WITHIN THE	**§**	**RAILROAD COMMISSION**
UNINCORPORATED AREAS SERVED	**§**	
BY ITS WEST TEXAS DIVISION	**§**	**OF TEXAS**

FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to Tex. Gov't Code Chapter 551, *et seq*. (West 2017 & Supp. 2018). The Railroad Commission of Texas adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. Atmos Energy Corp., West Texas Division ("Atmos"), is a gas utility as that term is defined in the Texas Utilities Code and is subject to the jurisdiction of the Railroad Commission of Texas (the "Commission").

2. On June 29, 2018, Atmos Energy filed a Statement of Intent to change gas utility rates within the unincorporated areas of its West Texas Division (the "SOI") with the Commission. That filing was docketed as GUD No. 10743.

3. On August 21, 2018, the Commission timely suspended the implementation of Atmos's proposed rates for 150 days.

4. For all customers located in unincorporated or environs areas, Atmos provided direct mail notice of its SOI to all affected customers in accordance with Tex. Util. Code § 104.103(a) (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.230 and 7.235 (2018).

5. The publication of notice meets the statutory and rule requirements of notice and provides sufficient information to ratepayers about the proposed rate change in the SOI, in accordance with Tex. Util. Code § 104.103(a) (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.230 and 7.235 (2018).

6. On July 5, 2018, Staff of the Railroad Commission ("Staff") moved to intervene as a party, and the motion subsequently was granted.

7. On September 14, 2018, Atmos notified the presiding Administrative Law Judge ("ALJ") that the parties had reached a settlement in principle and requested an abatement of Staff's testimony deadline. The motion was granted on September 18, 2018.

8. On October 9, 2018, the parties filed the Unanimous Settlement Agreement ("Settlement"), which resolved all issues and no issues were preserved for further litigation.

9. Atmos established that it maintains its books and records in accordance with the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("USOA") prescribed for natural gas companies.

10. Atmos established that it has fully complied with the books and records requirements of Commission Rule § 7.310, and the amounts included therein are therefore entitled to the presumption in Commission Rule § 7.503 that these amounts are reasonable and necessary.

11. The test-year in this filing is based upon the financial data for the twelve-month period ending December 31, 2017, adjusted for known and measurable changes.

12. In the SOI, Atmos initially requested an apportioned revenue requirement decrease of approximately $484,804 for the unincorporated areas of its West Texas Division, calculated based on a decrease of approximately $5,500,484, as adjusted for excess Accumulated Deferred Income Taxes, for the West Texas Division.

13. The Settlement provides for an apportioned decrease of approximately $866,090 for the unincorporated areas of its West Texas Division, calculated based on a decrease of approximately $9,024,921, as adjusted for excess Accumulated Deferred Income Taxes, for the West Texas Division.

14. The Settlement includes a reduction of the corporate income tax rate from 35% to 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017 (the "Tax Cuts and Jobs Act").

15. The parties have established that the proposed revenue decrease of $866,090 from current unincorporated revenues is just and reasonable.

16. The proposed division-wide rates will affect the following classes of customers within the unincorporated areas of the West Texas Division: Residential, Commercial Sales, Industrial and Transportation, and Public Authority.

17. The rates reflected in the Settlement, attached to this Order as Attachment 1, and the customer charges set forth therein, are just and reasonable for customers within the unincorporated areas of the West Texas Division.

Rate Schedule	Customer Charge	Consumption Charge (per Ccf)
Residential Gas Service	$16.10	$0.21224
Commercial Gas Service	$43.25	$0.11722
Industrial / Transportation Gas Service	$409.00	$0.06895
Public Authority Gas Service	$122.25	$0.09518

18. The following capital structure, cost of debt, cost of equity, weighted cost of capital, overall rate of return, and pre-tax return included in the Settlement for the West Texas Division are just and reasonable.

Class of Capital	Percent	Cost	Weighted Cost of Capital	Pre-Tax Return
Long-Term Debt	39.82%	5.20%	2.07%	2.07%
Common Equity	60.18%	9.80%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

19. Consistent with the Settlement, it is just and reasonable that any future interim rate adjustment ("IRA") filings affecting the unincorporated areas of the West Texas Division, pursuant to Tex. Util. Code § 104.301 (West 2007 & Supp. 2017), shall use the following factors until changed by a subsequent rate proceeding:

a. The capital structure and related components as shown in Finding of Fact No. 18.

b. For any initial IRA filing, the beginning ad valorem tax rate at a West Texas Division level is 1.02% and the Shared Services Ad Valorem Tax Rate is 0.72%. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.

c. For any initial IRA filing, the system-wide net plant in service amount in the West Texas Division shall be $631,037,126 as presented in Exhibit C to the Settlement.

d. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10174 as presented in Exhibit C to the Settlement.

e. For any initial IRA filing, the customer charges and consumption charges as shown in Finding of Fact No. 17 above will be the starting rates to which any IRA adjustment is applied.

f. Federal income taxes will be calculated using a 21% rate, unless the federal income tax rate is changed, in which case the new rate will be applied.

g. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	Percentage
Residential Gas Service	75.13%
Commercial Gas Service	18.39%
Industrial / Transportation Gas Service	2.16%
Public Authority Gas Service	4.32%

20. Atmos may pursue recovery of a deferred benefit regulatory asset or liability pursuant to Tex. Util. Code § 104.059 (West 2007 & Supp. 2017) in a future filing. The following amounts are established as the base-year levels to track changes in pension-related and other post-employment benefits:

Entity	Pension Account Plan	Post-Employment Benefit Plan	Supplemental Executive Benefit Plan	Total
SSU Allocated to West Texas	$272,401	$180,397	$0	$ 452,798
West Texas Direct	$721,710	$507,762	$102,033	$1,331,505
Total	**$994,111**	**$688,159**	**$102,033**	**$1,784,303**

21. It is reasonable to continue the use of the depreciation rates established in GUD No. 10174 as presented in Exhibit C to the Settlement.

22. It is reasonable that the revenue requirement includes a reduction of the corporate income tax rate from 35% to 21% to recognize changes due to the Tax Cuts and Jobs Act.

23. It is reasonable that the revenue requirement includes an adjustment to federal income tax expense for excess deferred income taxes ("EDIT") resulting from the Tax Cuts and Jobs Act and for this amount to be computed based on the Reverse South Georgia Method for those amounts required under Internal Revenue Service ("IRS") normalization rules.

24. It is reasonable for Atmos's protected EDIT liabilities to be amortized over a 24-year period as determined by the Reverse South Georgia Method.

25. It is reasonable for Atmos's unprotected EDIT to be amortized over a 24-year period because this balance is a net asset on Atmos's books and the use of this amortization period rather than a shorter amortization period benefits ratepayers by extending the period over which that balance must be repaid to Atmos.

26. It is reasonable for State Institution customers to be subject to Atmos's Public Authority Gas Service tariff.

27. No expenses associated with the payment of administrative penalties related to the operation of the West Texas Division system or the amortization of any related insurance deductible are included in the base revenue requirement.

28. Insurance services required by Atmos are acquired from Blueflame, a wholly owned subsidiary of Atmos Energy that provides insurance for all of Atmos Energy's divisions.

29. All of the Atmos Energy West Texas Division property, plant, and equipment are covered through property insurance provided by Blueflame.

30. Insurance services provided by Blueflame are at cost and without markup.

31. The cost of insurance coverage is allocated among the Atmos Energy divisions and subsidiaries based upon the annual plant balance.

32. The rate of insurance was $0.070 per $100 of gross plant through February 28, 2017, and $0.065 per $100 of gross plant through December 31, 2017, which is lower than the previously approved rates that the Commission determined to be reasonable and necessary in GUD No. 10170 and consistent with Tex. Util. Code § 104.055(b)(1).

33. Atmos has established that the system-wide expenses for Blueflame in the amount of $174,299.43 are (a) reasonable and necessary and (b) the price charged to Atmos is not higher than the prices charged by Blueflame to other affiliates or divisions of Atmos Energy or to a non-affiliated person for the same item or class of items.

34. Atmos has established that the actual and estimated rate case expenses totaling $48,009.08 are just and reasonable and that the expenses do not include any charges for luxury items and Atmos did not incur any excessive airline, lodging, or meal expenses.

35. Atmos has established that the amount of work done and the time and labor required to accomplish the work was reasonable given the nature of the issues addressed.

36. It is reasonable that the recovery of $48,009.08 in total rate case expenses be over an approximate twelve (12) month period with the surcharge separately stated on each bill.

37. It is reasonable that Atmos submit to Staff invoices reflecting actual rate case expenses with sufficient detail so that Staff can accurately audit such invoices for the purposes of reconciling estimated rate case expenses to actual rate case expenses. In no case shall the total actual rate case expenses exceed the actual expenses submitted to the Commission as of August 31, 2018, plus the approved estimated expenses of $15,000.00.

38. It is reasonable that Atmos file an annual Rate Case Expense Compliance Filing with Staff detailing the balance of actual plus estimated rate case expenses at the beginning of the annual period, the amount collected by customer class, and the ending or remaining balance within ninety (90) days after each calendar year end until and including the calendar year end in which rate case expenses are fully recovered.

39. The tariffs attached to this Order are just and reasonable.

CONCLUSIONS OF LAW

1. Atmos is a gas utility as defined in Tex. Util. Code §§ 101.003(7) and 121.001 (West 2007 & Supp. 2017) and is therefore subject to the jurisdiction of the Commission.

2. Under Tex. Util. Code § 102.001 (West 2007 & Supp. 2017), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.

3. The Commission has jurisdiction over Atmos's SOI under Tex. Util. Code §§ 102.001, 104.001, and 104.201 (West 2007 & Supp. 2017).

4. This proceeding was conducted in accordance with the requirements of GURA §§ 101.001 *et seq.,* (West 2007 & Supp. 2017) and the Administrative Procedure Act, Tex. Gov't Code §§ 2001.001 *et seq*. (West 2017 & Supp. 2018).

5. Tex. Util. Code § 104.107 (West 2007 & Supp. 2017) provides the Commission's authority to suspend the operation of the schedule of proposed rates for 150 days from the date the schedule would otherwise go into effect.

6. In accordance with Tex. Util. Code § 104.103 (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.230 and 7.235, adequate notice was properly provided.

7. Atmos filed its SOI in accordance with Tex. Util. Code § 104.102 (West 2007 & Supp. 2017) and 16 Tex. Admin. Code §§ 7.205 and 7.210.

8. Atmos has established that its books and records conform with 16 Tex. Admin. Code § 7.310, and thus Atmos is entitled to the presumption that the amounts included therein are reasonable and necessary in accordance with 16 Tex. Admin. Code § 7.503.

9. The revenue, rates, rate design, and service charges identified in the schedules attached to this Order are just and reasonable, are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumer, as required by Tex. Util. Code §§ 101.002, et seq. (West 2007 & Supp. 2017).

10. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for Atmos that will permit it a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by Tex. Util. Code

§ 104.051 (West 2007 & Supp. 2017); and otherwise comply with Chapter 104 of the Texas Utilities Code.

11. The revenue, rates, rate design, and service charges proposed will not yield to Atmos more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by Tex. Util. Code § 104.052 (West 2007 & Supp. 2017).

12. The rates established in this docket comport with the requirements of Tex. Util. Code § 104.053 (West 2007 & Supp. 2017) and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost less depreciation and current cost less an adjustment for present age and condition.

13. The test-year level of pension-related and other post-employment benefits expenses are consistent with Tex. Util. Code § 104.059 (West 2007 & Supp. 2017).

14. The rates established in this case comply with the affiliate transaction standard set out in Tex. Util. Code § 104.055 (West 2007 & Supp. 2017).

15. Atmos has fully complied with all requirements set forth in the Gas Utilities Accounting Order, signed on February 27, 2018, and related Order Nunc Pro Tunc, signed on March 20, 2018, issued in GUD No. 10695.

16. Capital investment made through December 31, 2017, was reasonable and prudent and consistent with Tex. Util. Code, Chapter 104 and Commission Rule § 7.7101.

17. A rate base amount totaling $506,954,294 for the West Texas Division is just and reasonable.

18. A rate of return of 7.97 percent, including the components specified in this Order, is consistent with the requirements of Tex. Util. Code § 104.052 (West 2007 & Supp. 2017).

19. An overall base revenue requirement of $11,587,977 for the unincorporated areas and a system-wide base revenue requirement of $119,820,735 for the West Texas Division is just and reasonable and permits Atmos a reasonable opportunity to earn a reasonable return on Atmos Energy's invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.

20. Actual rate case expenses not to exceed the amount of $48,009.08 are reasonable, necessary, and consistent with the requirements of 16 Tex. Admin. Code § 7.5530(a).

21. In accordance with 16 Tex. Admin. Code § 7.7101, Atmos may adjust its revenue in future IRA filings based on the difference between values of the

investment amounts only by the constant factors set in this docket for: return on investment; depreciation expenses, for those individual rates for each FERC account; ad valorem taxes; revenue related taxes; and federal income tax.

22. The rate schedules and tariffs reflected in this Order are consistent with applicable statutory and Commission requirements.

23. Atmos is required by 16 Tex. Admin. Code § 7.315 to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.

IT IS THEREFORE ORDERED that the Settlement attached to this Order as Attachment 1 is hereby **APPROVED**.

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact, conclusions of law, and as shown on the attached tariffs for Atmos are **APPROVED**.

IT IS FURTHER ORDERED that the factors established for future Interim Rate Adjustments in Finding of Fact No. 19 are **APPROVED**.

IT IS FURTHER ORDERED that Atmos file an annual Rate Case Expense Compliance Filing with Staff detailing recovery of rate case expenses as described in Finding of Fact Nos. 34-37 within ninety (90) days after each calendar year end until the calendar year end until and including the calendar year end in which the rate case expenses are fully recovered.

IT IS FURTHER ORDERED that within thirty (30) days of this Order, in accordance with 16 Tex. Admin. Code § 7.315, Atmos shall electronically file its rate schedules in proper form that accurately reflect the rates approved in this Order.

IT IS FURTHER ORDERED that any incremental change in rates approved in this Order and implemented by Atmos shall be subject to refund unless and until Atmos's tariffs are electronically filed and accepted by the Gas Services Department in accordance with 16 Tex. Admin. Code § 7.315.

IT IS FURTHER ORDERED that all proposed findings of fact and conclusions of law not specifically adopted in this Order are hereby **DENIED**.

IT IS FURTHER ORDERED that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED**.

IT IS FURTHER ORDERED that this Order will not be final and effective until 25 days after the date this Order is signed. If a timely motion for rehearing is filed by any party of interest, this Order shall not become final and effective until such motion is overruled, or if such motion is granted, this Order shall be subject to further action by the Commission. The time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law is hereby extended until 100 days from the date this Order is signed.

SIGNED this 11th day of December, 2018.

RAILROAD COMMISSION OF TEXAS

Christi Craddick

CHAIRMAN CHRISTI CRADDICK

COMMISSIONER RYAN SITTON

COMMISSIONER WAYNE CHRISTIAN

ATTEST:

Kathy Way

SECRETARY

Final Order
GUD No. 10743

ATTACHMENT 1

Settlement Agreement (without Exhibit E)

-and-

"Rider SUR-Surcharge" Tariff

-and-

Quality of Service Rules

GUD NO. 10743

STATEMENT OF INTENT FILED BY ATMOS ENERGY CORP. TO CHANGE GAS UTILITY RATES WITHIN THE UNINCORPORATED AREAS SERVED BY ITS WEST TEXAS DIVISION	§ § § § §	**BEFORE THE RAILROAD COMMISSION OF TEXAS**

UNANIMOUS SETTLEMENT AGREEMENT

This Unanimous Settlement Agreement is entered into by and between Atmos Energy Corp., West Texas Division (Atmos Energy) and the Staff of the Railroad Commission of Texas (Staff), (collectively, the "Signatories").

WHEREAS, on June 29, 2018, Atmos Energy filed its Statement of Intent to Change Gas Utility Rates within the Unincorporated Areas with the Railroad Commission of Texas (Commission); and

WHEREAS, the Commission docketed the rate request as GUD No. 10743; and

WHEREAS, Commission Staff sought intervention and were granted party status in GUD No. 10743; and

WHEREAS, the Company has filed direct testimony and errata to its Statement of Intent; and

WHEREAS, the parties have engaged in discovery regarding the issues in dispute; and

WHEREAS, Staff direct testimony was due on September 28, 2018, but Staff did not file direct testimony in reliance on this Unanimous Settlement Agreement; and

WHEREAS, the Signatories agree that resolution of this docket by unanimous settlement agreement will significantly reduce the amount of reimbursable rate case expenses associated with this docket;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the Commission the following Settlement Terms as a means of concluding the above-referenced docket filed by Atmos Energy without the need for prolonged litigation:

Settlement Terms

1. As a product of compromise and for the purposes of settlement, the Signatories agree to the rates, terms and conditions reflected in the tariffs attached to this Unanimous Settlement Agreement as Exhibit A. The tariffs attached as Exhibit A replace and supersede those tariffs currently in effect for the unincorporated areas of the West Texas Division. These tariffs are premised on a decrease of \$(866,090) in current annual revenues from the

unincorporated areas as illustrated in the proof of revenues attached as part of Exhibit B to this Unanimous Settlement Agreement. Except as specifically provided herein, the Signatories agree that the $(866,090) revenue decrease for the unincorporated areas, as adjusted for Accumulated Deferred Income Tax, is not tied to any specific expense in the underlying cost of service within Atmos Energy's West Texas Division. The agreed upon system-wide decrease, as adjusted for excess Accumulated Deferred Income Taxes, is $(9,024,921). The agreed upon system-wide net revenue requirement is $119,820,735 as reflected in Exhibit F. The Signatories further agree that the rates, terms and conditions reflected in Exhibit A to this Unanimous Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code. The gas rates, terms and conditions established by this Unanimous Settlement Agreement shall be effective upon approval by the Commission.

2. Signatories agree that the revenue requirement in paragraph 1 includes expenses associated with services acquired by Blueflame, a wholly-owned subsidiary of Atmos Energy that provides insurance for all of the Company's divisions. The rate of insurance included in the Company's filing was $0.070 per $100 of gross plant through February 28, 2017, and $0.065 per $100 of gross plant through December 31, 2017, which is lower than the previously approved rates that the Commission determined to be reasonable and necessary in GUD No. 10170 and consistent with Tex. Util. Code § 104.055(b)(1).

3. Signatories agree that the system-wide expenses associated with services acquired by Blueflame in the amount of $174,299.43 are (a) reasonable and necessary and (b) the price charged to Atmos Energy's West Texas Division is not higher than the prices charged by the supplying affiliate to its other affiliates or division or to a non-affiliated person for the same item or class of items as required by Section 104.055 of the Gas Utility Regulatory Act.

4. Signatories agree that the net base revenue requirement in paragraph 1 excludes all expenses associated with the payment of administrative penalties related to the operation of the West Texas Division system, as well as the amortization of any related insurance deductible.

5. The Signatories agree to the following customer charges and consumption charges. These rates are based on test year-end customer count and are reflected in the rate schedules attached as Exhibit A.

Rate Schedule	Customer Charge	Consumption Charge (per Ccf)
Residential Gas Service	$16.10	$0.21224
Commercial Gas Service	$43.25	$0.11722
Industrial / Transportation Gas Service	$409.00	$0.06895
Public Authority Gas Service	$122.25	$0.09518

6. The Signatories agree to use of the following capital structure and weighted cost of capital, including the after-tax return, in future Interim Rate Adjustment (IRA) filings, as shown below.

Class of Capital	Percent	Cost	Weighted Cost of Capital	Pre-Tax Return
Long-Term Debt	39.82%	5.20%	2.07%	2.07%
Common Equity	60.18%	9.80%	5.90%	7.47%
Weighted Average Cost of Capital	100.00%		7.97%	9.54%

7. The Signatories agree that the interim rate adjustments made in 2013, 2014, 2015, 2016, and 2017 pursuant to Texas Utilities Code § 104.301 were just and reasonable.

8. The Signatories agree that any IRA filing in Atmos Energy's West Texas Division pursuant to Texas Utilities Code § 104.301 shall use the following factors until changed by a subsequent general rate proceeding:

a. The capital structure and related components as shown above in Paragraph 6.

b. For any initial IRA filing, the beginning ad valorem tax rate at a West Texas Division level is 1.02% and the Shared Services Ad Valorem Tax Rate is 0.72%. For subsequent IRA filings, the Ad Valorem Tax Rates will be updated annually to include the actual taxes paid in the calculation of the tax rate.

c. For any initial IRA filing, the system-wide net plant in service amount in the West Texas Division shall be $631,037,126 as presented in Exhibit C.

d. For any initial IRA filing and for any subsequent IRA filings, the depreciation rate for each account shall be those approved in GUD No. 10174 as presented in Exhibit C.

e. For any initial IRA filing, the customer charges and consumption charges as shown in Paragraph 5 above will be the starting rates to which any IRA adjustment is applied.

f. Federal income taxes will be calculated using a 21% rate, unless the federal income tax rate changed, in which case the new rate will be applied.

g. The base rate revenue allocation factors to spread any change in IRA increase/decrease to the appropriate customer classes are as follows:

	Percentage
Residential Gas Service	75.13%
Commercial Gas Service	18.39%
Industrial / Transportation Gas Service	2.16%
Public Authority Gas Service	4.32%

9. The Signatories agree that the following amounts are reasonable to establish the base-year levels to track changes in pension-related and other post-employment benefits:

Entity	Pension Account Plan	Post-Employment Benefit Plan	Supplemental Executive Benefit Plan	Total
SSU Allocated to West Texas	$272,401	$180,397	$0	$ 452,798
West Texas Direct	$721,710	$507,762	$102,033	$1,331,505
Total	**$994,111**	**$688,159**	**$102,033**	**$1,784,303**

10. The Signatories agree that the decrease amount and net base revenue requirement in Paragraph 1 include a reduction of the corporate income tax rate from 35% to 21% to recognize changes to the Federal Tax Code due to the Tax Cuts and Jobs Act of 2017.

The Signatories further agree that the decrease amount and net base revenue requirement in Paragraph 1 reflect an adjustment to federal income tax expense for excess deferred income taxes (EDIT) resulting from the Tax Cuts and Jobs Act of 2017. The EDIT adjustment has been computed based on the Reverse South Georgia Method for those amounts required under Internal Revenue Service (IRS) normalization rules.

Signatories agree that it is reasonable to amortize the Company's protected EDIT liabilities over a 24 year period as determined by the RSG method and shown on Exhibit D. The Signatories further agree that the Company's unprotected EDIT should be amortized over the same 24 year period as shown on Exhibit D. The Signatories have agreed to a 24 year amortization of the Company's unprotected EDIT because this balance is a net asset on the Company's books and the use of this amortization period rather than a shorter amortization period benefits ratepayers by extending the period over which that balance must be repaid to the Company.

11. The Signatories further agree that Atmos Energy has fully complied with all requirements set forth in the Gas Utilities Accounting Order (Feb. 27, 2018) and Order Nunc Pro Tunc (March 20, 2018) issued in GUD No. 10695.

12. The Signatories agree that it is reasonable for State Institution customers to be subject to Atmos Energy's Public Authority Gas Service tariff.

13. Atmos Energy represents that its reasonable rate case expenses incurred through August 2018, and estimated rate case expenses incurred through completion of this case, are as follows:

	Required Regulatory Expenses	Litigation Expenses	Estimate to Completion	Total
Atmos Energy	$27,201.08, less $109, totals $27,092.08	$5,917.00	$15,000	$48,009.08

14. Atmos Energy has attached as Exhibit E an affidavit and invoices in support of these amounts and will supplement with additional invoices as they are processed. The Signatories agree that the amounts represented above are reasonable and recoverable pursuant to Texas Utilities Code § 104.051. The Signatories agree that the recovery period for the applicable surcharge to recover rate-case expenses shall be twelve (12) months. The Signatories intend and advocate that the Commission authorize recovery of the rate case expenses recited above in the same proceeding and at the same time as it approves this Unanimous Settlement Agreement.

15. Atmos Energy shall file annually, due on or before April 1, a rate case expense recovery compliance filing with the Railroad Commission of Texas, Oversight and Safety Division, referencing GUD No. 10743. The Signatories agree to and propose the inclusion of the following Findings of Fact and Ordering Paragraph in the Final Order in this docket:

   a. Finding of Fact: It is reasonable that Atmos Energy submit to Staff invoices reflecting actual rate case expenses with sufficient detail so that Staff can accurately audit such invoices for the purposes of reconciling estimated rate case expenses to actual rate case expenses. In no case shall the total actual expenses exceed the actual expenses submitted to the Commission as of August 31, 2018, plus the approved estimated expenses of $15,000.00.

   b. Finding of Fact: It is reasonable that Atmos Energy file an annual Rate Case Expense Compliance Filing with Staff detailing the balance of actual plus estimated rate case expenses at the beginning of the annual period, the amount collected by customer class, and the ending or remaining balance within ninety (90) days after each calendar year end until and including the calendar year end in which the rate case expenses are fully recovered.

   c. Ordering Paragraph: IT IS FURTHER ORDERED that Atmos Energy file an annual Rate Case Expense Compliance Filing with Staff detailing recovery of rate case expenses as described in proposed Finding of Fact 37 within ninety (90) days after each calendar year end until the calendar year end until and including the calendar year end in which the rate case expenses are fully recovered.

16. The Signatories agree to and propose the inclusion of the following Ordering Paragraphs in the Final Order in this docket:

   a. Ordering Paragraph: IT IS FURTHER ORDERED that within thirty (30) days of this Final Order, in accordance with 16 Tex. Admin. Code § 7.315, Atmos Energy SHALL electronically file its rate schedules in proper form that accurately reflect the rates in Exhibit A approved in this Final Order.

   b. Ordering Paragraph: IT IS FURTHER ORDERED that any incremental change in rates approved by this Final Order and implemented by Atmos Energy shall be subject to refund unless and until Atmos Energy's tariffs are electronically filed and accepted by the Gas Services Department in accordance with 16 Tex. Admin. Code § 7.315.

17. The classes and number of customers affected by this Unanimous Settlement Agreement include approximately 20,327 Residential, 2,367 Commercial, 106 Industrial and Transportation, 156 Public Authority, and 37 State Institution customers.

18. The Signatories agree to support and seek Commission approval of this Unanimous Settlement Agreement. The Signatories further agree to make all efforts to present the Commission with this Unanimous Settlement Agreement on or before November 13, 2018.

19. Except as may be allowed under Rule 408 of the Texas Rules of Evidence, the Signatories agree that all negotiations, discussions, and conferences related to the Unanimous Settlement Agreement are privileged and inadmissible to prove the validity or invalidity of any issue raised by or presented in the Statement of Intent to Change Gas Utility Rates within the Unincorporated Areas filed on June 29, 2018.

20. The Signatories agree that neither this Unanimous Settlement Agreement nor any oral or written statements made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the Commission of an order approving this Unanimous Settlement Agreement.

21. The Signatories agree that the terms of the Unanimous Settlement Agreement are interdependent and indivisible, and that if the Commission intends to enter an order that is inconsistent with this Unanimous Settlement Agreement, then any Signatory may withdraw without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Unanimous Settlement Agreement or its subsequent withdrawal and further agrees that Atmos Energy's application to increase rates will be remanded for hearings.

22. The Signatories agree that this Unanimous Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes. The matters resolved herein are resolved on the basis of a compromise and settlement. Except to the extent the Unanimous Settlement Agreement governs a Signatory's rights and obligations for future periods, this Unanimous Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding. Each Signatory acknowledges that a Signatory's support of the matters contained in this Stipulation may differ from the position taken or testimony presented by it in other dockets or other jurisdictions. To the extent that there is a difference, a Signatory does not waive its position in any of those other dockets or jurisdictions. Because this is a stipulated resolution, no Signatory is under any obligation to take the same positions as set out in this Stipulation in other dockets or jurisdictions, regardless of whether other dockets present the same or a different set of circumstances, except as otherwise may be explicitly provided by this Stipulation. Agreement by the Signatories to any provision in this Stipulation will not be used against any Signatory in any future proceeding with respect to different positions that may be taken by that Signatory.

23. The provisions of this Stipulation are intended to relate to only the specific matters referred to herein. By agreeing to this Stipulation, no Signatory waives any claim it may otherwise have with respect to issues not expressly provided for herein. The Signatories further

have with respect to issues not expressly provided for herein. The Signatories further understand and agree that this Stipulation represents a negotiated settlement of all issues in this proceeding.

24. The Signatories agree that this Unanimous Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 9th day of October 2018.

ATMOS ENERGY CORP., WEST TEXAS DIVISION

By: ______________________
Ann M. Coffin
Attorney for Atmos Energy Corp., West Texas Division

STAFF OF THE RAILROAD COMMISSION OF TEXAS

By: Natalie Dubiel w/permission AN
Natalie Dubiel
Attorney for Staff of the Railroad Commission of Texas

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**RESIDENTIAL GAS SERVICE**	
APPLICABLE TO:	**ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION**	
EFFECTIVE DATE:		

This schedule is applicable to general use by Residential customers for heating, cooking, refrigeration, water heating and other similar type uses. This schedule is not available for service to premises with an alternative supply of natural gas.

Monthly Rate

Charge	Amount
Customer Charge	$ 16.10
Consumption Charge per Ccf	$ 0.21224

The West Texas Division Gas Cost Adjustment Rider applies to this schedule.

The West Texas Division Weather Normalization Adjustment Rider applies to this schedule.

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**COMMERCIAL GAS SERVICE**	
APPLICABLE TO:	**ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION**	
EFFECTIVE DATE:		

Availability

This schedule is applicable to Commercial customers, including hospitals and churches, for heating, cooking, refrigeration, water heating and other similar type uses. This schedule is not available for service to premises with an alternative supply of natural gas.

Monthly Rate

Charge	Amount
Customer Charge	$ 43.25
Consumption Charge per Ccf	$ 0.11722

The West Texas Division Gas Cost Adjustment Rider applies to this schedule.

The West Texas Division Weather Normalization Adjustment Rider applies to this schedule.

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**INDUSTRIAL GAS SERVICE**	
APPLICABLE TO:	**ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION**	
EFFECTIVE DATE:		

Availability

This schedule is applicable to the sales to any industrial or commercial customer whose predominant use of natural gas is other than space heating, cooking, water heating or other similar type uses. Service under this schedule is available to eligible customers following execution of a contract specifying the maximum hourly load. This schedule is not available for service to premises with an alternative supply of natural gas.

Monthly Rate

Charge	Amount
Customer Charge	$ 409.00
Consumption Charge per Ccf	$ 0.06895

The West Texas Division Gas Cost Adjustment Rider applies to this schedule.

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**PUBLIC AUTHORITY GAS SERVICE**	
APPLICABLE TO:	**ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION**	
EFFECTIVE DATE:		

Availability

This schedule is applicable to general use by Public Authority type customers, including public schools and state institutions, for heating, cooking, refrigeration, water heating and other similar type uses. This schedule is not available for service to premises with an alternative supply of natural gas.

Monthly Rate

Charge	Amount
Customer Charge	$ 122.25
Consumption Charge per Ccf	$ 0.09518

The West Texas Division Gas Cost Adjustment Rider applies to this schedule.

The West Texas Division Weather Normalization Adjustment Rider applies to this schedule.

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**TRANSPORTATION SERVICE**	
APPLICABLE TO:	**ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION**	
EFFECTIVE DATE:		

Application
Applicable, in the event that Company has entered into a Transportation Agreement, to a customer directly connected to the Atmos Energy Corp., West Texas Division Distribution System for the transportation of all natural gas supplied by Customer or Customer's agent at one Point of Delivery for use in Customer's facility with an estimated annual usage greater than 100,000 Ccf per meter.

Type of Service
Where service of the type desired by Customer is not already available at the Point of Delivery, additional charges and special contract arrangements between Company and Customer may be required prior to service being furnished.

Monthly Rate
Customer's bill will be calculated by adding the following Customer and Ccf charges to the amounts and quantities due under the riders listed below:

Charge	Amount
Customer Charge per Meter	$ 409.00
Consumption Charge per Ccf	$ 0.06895

Upstream Transportation Cost Recovery: The customer is responsible for all upstream transportation costs.

Retention Adjustment: Plus a quantity of gas equal to the Company's most recently calculated financial L&U percentage for the twelve months ended September multiplied by the gas received into Atmos Energy Corporation's West Texas Division for transportation to the customer.

Surcharges: Plus an amount for surcharges calculated in accordance with the applicable rider(s).

RATE SCHEDULE:	**TRANSPORTATION SERVICE**	
APPLICABLE TO:	**ALL UNINCORPORATED AREAS IN THE WEST TEXAS DIVISION**	
EFFECTIVE DATE:		

Miscellaneous Charges: Plus an amount for miscellaneous charges calculated in accordance with the applicable rider(s).

Conversions: Units may be converted from Ccf to Mcf or Mmbtu as necessary to comply with the underlying transportation agreement.

Imbalance Fees
All fees charged to Customer under this Rate Schedule will be charged based on the quantities determined under the applicable Transportation Agreement and quantities will not be aggregated for any Customer with multiple Transportation Agreements for the purposes of such fees.

Monthly Imbalance Fees
Customer shall pay Company a monthly imbalance fee at the end of each month as defined in the applicable Transportation Agreement,

Curtailment Overpull Fee
Upon notification by Company of an event of curtailment or interruption of Customer's deliveries, Customer will, for each MMBtu delivered in excess of the stated level of curtailment or interruption, pay Company 200% of the "Index" price reported for the month of delivery in Inside FERC's Gas Market Report under the heading "West Texas Waha".

Replacement Index
In the event the "Index" price reported for the month of delivery in Inside FERC's Gas Market Report under the heading "West Texas Waha" is no longer published, Company will calculate the applicable imbalance fees utilizing a daily price index recognized as authoritative by the natural gas industry and most closely approximating the applicable index.

Agreement
A transportation agreement is required.

Notice
Service hereunder and the rates for services provided are subject to the orders of regulatory bodies having jurisdiction and to the Company's Tariff for Gas Service.

Special Conditions
In order to receive transportation service under this tariff, customer must have the type of meter, instrumentation, and communication required by Company. Customer must pay Company all costs associated with the acquisition and installation of the required equipment.

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
1	**RESIDENTIAL**				
2	Rate Characteristics:				
3	Customer Charge	$ 22.64	$ 16.10		
4	Consumption Charge (Ccf)				
5	West Texas	$ 0.16221	$ 0.21224		
6	Amarillo	$ 0.07184	$ 0.21224		
7	Lubbock	$ 0.08729	$ 0.21224		
8					
9	Rider GCA (Ccf)	$ 0.39117	$ 0.39117		
10					
11	Number of Bills	243,923	243,923		
12	Volumes (Ccf)				
13	West Texas	8,786,841	8,786,841		
14	Amarillo	2,305,411	2,305,411		
15	Lubbock	3,583,583	3,583,583		
16	Total Volumes	14,675,835	14,675,835		
17					
18	Revenue:				
19	Customer Charge	$ 5,522,408	$ 3,927,154		
20	Consumption Charge (Ccf)				
21	West Texas	1,425,313	1,864,919		
22	Amarillo	165,621	489,300		
23	Lubbock	312,811	760,580		
24	**Total Margin Revenue**	$ 7,426,154	$ 7,041,954		
25	Gas Cost	5,740,697	5,740,697		
26	**Total Residential Revenue**	$ 13,166,851	$ 12,782,651	$ (384,200)	-2.92%
27					

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
28	**COMMERCIAL**				
29	Rate Characteristics:				
30	Customer Charge	$ 55.60	$ 43.25		
31	Consumption Charge (Ccf)				
32	West Texas	$ 0.10770	$ 0.11722		
33	Amarillo	$ 0.09310	$ 0.11722		
34	Lubbock	$ 0.08598	$ 0.11722		
35					
36	Rider GCA (Ccf)	$ 0.39117	$ 0.39117		
37					
38	Number of Bills	28,410	28,410		
39	Volumes (Ccf)				
40	West Texas	10,825,945	10,825,945		
41	Amarillo	1,379,640	1,379,640		
42	Lubbock	678,952	678,952		
43	Total Volumes	12,884,538	12,884,538		
44					
45	Revenue:				
46	Customer Charge	$ 1,579,610	$ 1,228,743		
47	Consumption Charge (Ccf)				
48	West Texas	1,165,954	1,269,017		
49	Amarillo	128,445	161,721		
50	Lubbock	58,376	79,587		
51	**Total Margin Revenue**	$ 2,932,385	$ 2,739,069		
52	Gas Cost	5,040,002	5,040,002		
53	**Total Commercial Revenue**	$ 7,972,387	$ 7,779,070	$ (193,316)	-2.42%
54					

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
55	**INDUSTRIAL**				
56	Rate Characteristics:				
57	Customer Charge	$ 606.18	$ 409.00		
58	Consumption Charge (Ccf)				
59	West Texas	$ 0.05790	$ 0.06895		
60	Amarillo	$ 0.10716	$ 0.06895		
61	Lubbock	$ 0.07037	$ 0.06895		
62					
63	Rider GCA (Ccf)	$ 0.39117	$ 0.39117		
64					
65	Number of Bills	1,031	1,031		
66	Volumes (Ccf)				
67	West Texas	3,398,711	3,398,711		
68	Amarillo	9,084	9,084		
69	Lubbock	906,227	906,227		
70	Total Volumes	4,314,022	4,314,022		
71					
72	Revenue:				
73	Customer Charge	$ 624,972	$ 421,679		
74	Consumption Charge (Ccf)				
75	West Texas	196,785	234,341		
76	Amarillo	973	626		
77	Lubbock	63,771	62,484		
78	**Total Margin Revenue**	$ 886,502	$ 719,131		
79	Gas Cost	1,687,502	1,687,502		
80	**Total Industrial Revenue**	$ 2,574,003	$ 2,406,633	$ (167,371)	-6.50%
81					

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
82	**TRANSPORTATION**				
83	Rate Characteristics:				
84	Customer Charge	$ 606.18	$ 409.00		
85	Consumption Charge (Ccf)				
86	West Texas	$ 0.05790	$ 0.06895		
87	Amarillo	$ 0.10716	$ 0.06895		
88	Lubbock	$ 0.07037	$ 0.06895		
89					
90	Rider GCA (Ccf)[1]	$ -	$ -		
91					
92	Number of Bills	240	240		
93	Volumes (Ccf)				
94	West Texas	4,025,100	4,025,100		
95	Amarillo	317,500	317,500		
96	Lubbock	-	-		
97	Total Volumes	4,342,600	4,342,600		
98					
99	Revenue:				
100	Customer Charge	$ 145,483	$ 98,160		
101	Consumption Charge (Ccf)				
102	West Texas	233,053	277,531		
103	Amarillo	34,023	21,892		
104	Lubbock	-	-		
105	**Total Margin Revenue**	$ 412,560	$ 397,582		
106	Gas Cost	-	-		
107	**Total Transportation Revenue**	$ 412,560	$ 397,582	$ (14,978)	-3.63%
108					

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description	Current Revenue	Proposed Revenue	Total Change	Percent Change
	(a)	(b)	(c)	(d)	(e)
109	**PUBLIC AUTHORITY**				
110	Rate Characteristics:				
111	Customer Charge	$ 151.49	$ 122.25		
112	Consumption Charge (Ccf)				
113	West Texas	$ 0.09579	$ 0.09518		
114	Amarillo	$ 0.10113	$ 0.09518		
115	Lubbock	$ 0.12341	$ 0.09518		
116					
117	Rider GCA (Ccf)	$ 0.39117	$ 0.39117		
118					
119	Number of Bills	1,875	1,875		
120	Volumes (Ccf)				
121	West Texas	1,195,029	1,195,029		
122	Amarillo	1,738,885	1,738,885		
123	Lubbock	749,202	749,202		
124	Total Volumes	3,683,116	3,683,116		
125					
126	Revenue:				
127	Customer Charge	$ 283,976	$ 229,164		
128	Consumption Charge (Ccf)				
129	West Texas	114,472	113,743		
130	Amarillo	175,853	165,507		
131	Lubbock	92,459	71,309		
132	**Total Margin Revenue**	$ 666,760	$ 579,723		
133	Gas Cost	1,440,712	1,440,712		
134	**Total Public Authority Revenue**	$ 2,107,472	$ 2,020,435	$ (87,037)	-4.13%
135					

EXHIBIT B
Page 6 of 6

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
PROOF OF REVENUES
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Description		Current Revenue		Proposed Revenue		Total Change	Percent Change
	(a)		(b)		(c)		(d)	(e)
136	**STATE INSTITUTION**							
137	Rate Characteristics:							
138	Customer Charge	$	147.86	$	122.25			
139	Consumption Charge (Ccf)							
140	West Texas	$	0.12883	$	0.09518			
141	Lubbock	$	0.10567	$	0.09518			
142								
143	Rider GCA (Ccf)	$	0.39117	$	0.39117			
144								
145	Number of Bills		448		448			
146	Volumes (Ccf)							
147	West Texas		67,800		67,800			
148	Lubbock		517,942		517,942			
149	Total Volumes		585,743		585,743			
150								
151	Revenue:							
152	Customer Charge	$	66,241	$	54,768			
153	Consumption Charge (Ccf)							
154	West Texas		8,735		6,453			
155	Lubbock		54,731		49,298			
156	**Total Margin Revenue**	$	129,707	$	110,519			
157	Gas Cost		229,123		229,123			
158	**Total State Institution Revenue**	$	358,830	$	339,642	$	(19,188)	-5.35%
159								
160	**Total Gas Revenue**	$	26,592,103	$	25,726,013	$	(866,090)	-3.26%
161								
162	Note:							
163	1. Rider GCA does not apply to customers under the Transportation tariff.							

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c) - (d)	(f)
1	West Texas Direct:					
2	Distribution Plant					
3	374.01	Land	$ 117,348	$ -	$ 117,348	0.00%
4	374.02	Land Rights	255,606	144,272	111,334	1.56%
5	375.00	Structures & Improvements	321,035	207,389	113,647	3.05%
6	375.01	Structures - Frame	6,154	6,154	-	3.05%
7	375.02	Structures - Land Rights	2,740	2,740	-	3.05%
8	375.03	Improvements	23,347	23,347	-	3.05%
9	376.00	Mains - Cathodic Protection	55,371,886	17,913,206	37,458,680	2.68%
10	376.01	Mains - Steel	129,842,578	29,943,969	99,898,609	2.68%
11	376.02	Mains - Plastic	241,218,242	34,231,235	206,987,007	2.68%
12	377.00	Compressor Station Equipment	217,930	217,930	-	3.33%
13	378.00	M&R Station Equipment - General	18,192,084	3,613,576	14,578,508	2.65%
14	379.00	M&R Station Equipment - City Gate	4,034,888	419,266	3,615,622	3.92%
15	380.00	Services	141,621,097	41,529,713	100,091,384	3.55%
16	381.00	Meters	55,624,669	16,466,789	39,157,880	5.97%
17	382.00	Meter installations	54,599,151	(13,098,614)	67,697,766	6.62%
18	383.00	House Regulators	10,648,065	2,982,298	7,665,767	5.89%
19	384.00	House Regulator Installations	1,168,265	1,273,445	(105,181)	5.54%
20	385.00	Industrial M&R Station Equipment	2,159,398	1,583,617	575,781	4.04%
21	386.00	Other Property on Customers' Premises	24,218	24,218	-	1.82%
22	387.00	Other Equipment	1,595,475	765,129	830,346	4.15%
23		Total WTX Distribution Plant (Sum Ln 3 through Ln 22)	$ 717,044,176	$ 138,249,678	$ 578,794,499	
24						

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c) - (d)	(f)
25	General Plant					
26	302.00	Franchises & Consents	$ 4,264	1,474	$ 2,790	0.00%
27	389.00	Land & Land Rights	1,993,192	(1,225)	1,994,417	0.00%
28	390.00	Structures & Improvements	8,625,900	1,185,508	7,440,392	3.36%
29	390.01	Structures - Frame	5,867,180	691,997	5,175,183	3.36%
30	390.02	Structures - Brick	2,629,111	736,634	1,892,477	3.36%
31	390.03	Improvements	704,906	140,484	564,422	3.36%
32	390.04	Air Conditioning Equipment	52,092	39,000	13,093	3.36%
33	390.09	Improvments to Leased Premises	1,776,970	1,326,188	450,783	2.67%
34	391.00	Office Furniture & Equipment	1,786,021	788,877	997,144	8.28%
35	392.00	Transportation Equipment	375,666	45,899	329,767	3.10%
36	393.00	Stores Equipment	14,209	1,146	13,063	2.86%
37	394.00	Tools, Shop, and Garage Equipment	6,061,750	1,915,422	4,146,328	7.07%
38	395.00	Laboratory Equipment	-	-	-	6.04%
39	396.00	Power Operated Equipment	914,237	517,401	396,836	8.84%
40	396.03	Ditchers	-	-	-	8.84%
41	396.04	Backhoes	111,262	75,330	35,932	8.84%
42	396.05	Welders	40,594	36,985	3,609	8.84%
43	397.00	Communication Equipment	123,780	(6,530)	130,310	19.12%
44	397.05	Telemetering Equipment	-	(850)	850	19.12%
45	398.00	Miscellaneous Equipment	5,722,429	1,802,726	3,919,703	10.45%
46	399.06	PC Hardware	2,558,662	2,292,575	266,087	19.62%
47	399.07	PC Software	161,117	161,117	-	23.19%
48	RWIP	Retirement Work in Progress	-	(364,694)	364,694	
49		Total WTX General Plant (Sum Ln 26 through Ln 48)	$ 39,523,342	$ 11,385,465	$ 28,137,877	
50						

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c) - (d)	(f)
51	WTX General Office (Div 010):					
52	General Plant					
53	389.00	Land & Land Rights	$ 497,241	$ -	$ 497,241	0.00%
54	390.00	Structures & Improvements	4,641,728	458,057	4,183,671	3.36%
55	391.00	Office Furniture & Equipment	548,742	112,039	436,704	8.28%
56	392.00	Transportation Equipment	44,217	16,893	27,323	3.10%
57	394.00	Tools, Shop, and Garage Equipment	385,752	9,288	376,465	7.07%
58	397.00	Communication Equipment	249,461	110,569	138,892	19.12%
59	397.01	Mobile Radios	32,950	17,325	15,625	19.12%
60	397.02	Fixed Radios	-	-	-	19.12%
61	397.05	Telemetering Equipment	9,238	1,325	7,913	19.12%
62	398.00	Miscellaneous Equipment	1,325,523	405,426	920,097	10.45%
63	399.01	Servers Hardware	20,153	(34,060)	54,214	18.62%
64	399.03	Network Hardware	138,539	34,897	103,642	14.29%
65	399.06	PC Hardware	3,118,369	420,123	2,698,246	19.62%
66	399.07	PC Software	490,320	308,182	182,138	23.19%
67	RWIP	Retirement Work in Progress	-	47,755	(47,755)	
68		Total WTX General Office (Sum Ln 53 through Ln 67)	$ 11,502,233	$ 1,907,818	$ 9,594,416	
69						
70		Total West Texas Direct (Ln 23 + Ln 49 + Ln 68)	$ 768,069,752	$ 151,542,960	$ 616,526,792	
71						
72	SSU General Office (Div 002):					
73	General Plant					
74	390.00	Structures & Improvements	$ 88,809	$ 29,619	$ 59,190	3.34%
75	390.09	Improvements to Leased Premises	555,873	555,873	-	4.06%
76	391.00	Office Furniture & Equipment	305,895	105,967	199,928	4.03%
77	392.00	Transportation Equipment	448	320	129	10.32%
78	394.00	Tools, Shop, and Garage Equipment	4,787	1,856	2,931	8.88%
79	397.00	Communication Equipment	65,398	31,813	33,585	5.54%
80	398.00	Miscellaneous Equipment	8,590	2,686	5,903	1.72%

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c) - (d)	(f)
81	399.00	Other Tangible Property	10,210	10,217	(7)	13.84%
82	399.01	Servers Hardware	2,328,390	1,249,248	1,079,142	8.62%
83	399.02	Servers Software	1,195,883	1,044,918	150,965	8.78%
84	399.03	Network Hardware	223,310	150,526	72,784	8.72%
85	399.06	PC Hardware	154,658	62,480	92,178	8.78%
86	399.07	PC Software	92,702	12,551	80,151	6.64%
87	399.08	Application Software	4,175,365	1,929,624	2,245,742	6.57%
88	399.09	System Software	2,470	2,735	(266)	10.32%
89		Total SSU General Office (Sum Ln 74 through Ln 88)	$ 9,212,788	$ 5,190,433	$ 4,022,355	
90						
91	SSU Greenville Data Center (Div 002):					
92	General Plant					
93	390.05	Structures & Improvements	$ 255,311	$ 96,388	$ 158,923	3.34%
94	391.04	Office Furniture & Equipment	1,771	839	932	4.03%
95		Total SSU Greenville Data Center (Sum Ln 93 through Ln 94)	$ 257,082	$ 97,227	$ 159,855	
96						
97	SSU Distribution & Marketing (Div 002):					
98	General Plant					
99	390.20	Structures & Improvements	$ -	$ -	$ -	3.34%
100	390.29	Improvements to Leased Premises	-	-	-	4.06%
101	391.20	Office Furniture & Equipment	17,443	7,412	10,031	4.03%
102	394.20	Tools, Shop, and Garage Equipment	-	36	(36)	8.88%
103	397.20	Communication Equipment	818	326	492	5.54%
104	398.20	Miscellaneous Equipment	685	65	620	1.72%
105	399.21	Servers Hardware	151,078	101,764	49,314	8.62%
106	399.22	Servers Software	89,155	39,938	49,217	8.78%
107	399.23	Network Hardware	5,581	3,832	1,749	8.72%
108	399.26	PC Hardware	29,158	3,765	25,393	8.78%
109	399.28	Application Software	1,917,660	1,100,666	816,994	6.57%
110		Total SSU Distribution & Marketing (Sum Ln 99 through Ln 109)	$ 2,211,579	$ 1,257,805	$ 953,774	
111						

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c) - (d)	(f)
112	SSU Aligne Pipe Project (Div 002):					
113	General Plant					
114	399.31	Servers Hardware	$ -	$ -	$ -	8.62%
115	399.32	Servers Software	-	-	-	8.78%
116	399.38	Application Software	-	-	-	6.57%
117		Total SSU Aligne Pipe Project (Sum Ln 114 through Ln 116)	$ -	$ -	$ -	
118						
119	SSU Customer Support (Div 012):					
120	General Plant					
121	389.00	Land & Land Rights	$ 277,672	$ -	$ 277,672	0.00%
122	390.00	Structures & Improvements	1,223,918	156,847	1,067,070	3.34%
123	390.09	Improvements to Leased Premises	271,732	154,211	117,521	4.06%
124	391.00	Office Furniture & Equipment	224,411	73,760	150,651	4.03%
125	397.00	Communication Equipment	184,821	94,623	90,198	5.54%
126	398.00	Miscellaneous Equipment	5,090	825	4,264	1.72%
127	399.00	Other Tangible Property	60,782	40,373	20,409	13.84%
128	399.01	Servers Hardware	999,233	418,430	580,803	8.62%
129	399.02	Servers Software	195,527	102,330	93,197	8.78%
130	399.03	Network Hardware	60,788	31,525	29,262	8.72%
131	399.06	PC Hardware	96,590	46,756	49,834	8.78%
132	399.07	PC Software	18,379	12,041	6,338	6.64%
133	399.08	Application Software	8,707,666	2,509,093	6,198,573	6.57%
134		Total SSU Customer Support (Sum Ln 121 through Ln 133)	$ 12,326,609	$ 3,640,815	$ 8,685,794	
135						

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
INTERIM RATE ADJUSTMENT NET INVESTMENT AND RATE BASE ADJUSTMENTS
PER TEXAS UTILITIES CODE SECTION 104.301
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Utility Account	Account Description	Plant Balance	Accumulated Depreciation	Net Plant	Depreciation Rate
	(a)	(b)	(c)	(d)	(e) = (c) - (d)	(f)
136	SSU CKV Training Center (Div 012):					
137		General Plant				
138	389.10	Land & Land Rights	$ 99,083	$ -	$ 99,083	0.00%
139	390.10	Structures & Improvements	646,349	134,363	511,986	3.34%
140	391.10	Office Furniture & Equipment	20,000	1,697	18,303	4.03%
141	392.10	Transportation Equipment	5,058	4,836	222	10.32%
142	394.10	Tools, Shop, and Garage Equipment	20,004	4,270	15,734	8.88%
143	395.10	Laboratory Equipment	1,241	746	495	10.32%
144	397.10	Communication Equipment	15,311	7,510	7,801	5.54%
145	398.10	Miscellaneous Equipment	26,749	6,841	19,908	1.72%
146	399.10	Other Tangible Property	17,840	6,883	10,957	13.84%
147	399.16	PC Hardware	13,514	11,815	1,699	8.78%
148	399.17	PC Software	5,457	3,658	1,799	6.64%
149	399.18	Application Software	1,080	509	570	6.57%
150		Total SSU CKV Center (Sum Ln 138 through Ln 149)	$ 871,685	$ 183,128	$ 688,557	
151						
152		Total Allocated SSU Plant (Sum Lns 89, 95, 110, 117, 134, 150)	$ 24,879,743	$ 10,369,408	$ 14,510,335	
153						
154		Total West Texas Net Plant (Ln 70 + Ln 152)	$ 792,949,495	$ 161,912,369	$ 631,037,126	
155						
156		Rate Base Adjustments			$ 1,336,719	
157						
158		Note:				
159		1. The WTX General Office and SSU Plant Balances and Accumulated Depreciation reflect allocated amounts to West Texas.				

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
AMORTIZATION OF PROTECTED REGULATORY LIABILITY
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	Year Ended Dec. 31	Beginning of Year Rate Base Adjustment Amount	Annual Amortization (1)	End of Year Rate Base Adjustment Amount	Balance as of December 31, 2017 (2)
	(a)	(b)	(c)	(d)	(e)
1	2017			$ 58,425,230	$ 58,425,230
2	2018	$ 58,425,230	$ 2,434,385	55,990,846	
3	2019	55,990,846	2,434,385	53,556,461	
4	2020	53,556,461	2,434,385	51,122,076	
5	2021	51,122,076	2,434,385	48,687,692	
6	2022	48,687,692	2,434,385	46,253,307	
7	2023	46,253,307	2,434,385	43,818,923	
8	2024	43,818,923	2,434,385	41,384,538	
9	2025	41,384,538	2,434,385	38,950,153	
10	2026	38,950,153	2,434,385	36,515,769	
11	2027	36,515,769	2,434,385	34,081,384	
12	2028	34,081,384	2,434,385	31,647,000	
13	2029	31,647,000	2,434,385	29,212,615	
14	2030	29,212,615	2,434,385	26,778,231	
15	2031	26,778,231	2,434,385	24,343,846	
16	2032	24,343,846	2,434,385	21,909,461	
17	2033	21,909,461	2,434,385	19,475,077	
18	2034	19,475,077	2,434,385	17,040,692	
19	2035	17,040,692	2,434,385	14,606,308	
20	2036	14,606,308	2,434,385	12,171,923	
21	2037	12,171,923	2,434,385	9,737,538	
22	2038	9,737,538	2,434,385	7,303,154	
23	2039	7,303,154	2,434,385	4,868,769	
24	2040	4,868,769	2,434,385	2,434,385	
25	2041	2,434,385	2,434,385	(0)	
26					

27 Notes:

28 1. The annual amortization of a 24 year recovery period is based on the Reverse South Georgia Method.

29 2. An adjustment to the December 2017 balance for Account 253 Subaccount 27909 was recorded in March 2018. This balance has been utilized in the filing.

ATMOS ENERGY CORPORATION
WEST TEXAS UNINCORPORATED AREAS STATEMENT OF INTENT
RATE DESIGN
TEST YEAR ENDING DECEMBER 31, 2017

Line No.	(a)	(b)	(c)	(d)	(e)	(f)
1	Proposed Base Revenue Requirement		$ 122,255,119			
2	Less: Amortization of Excess ADIT		(2,434,385)			
3	Net Proposed Base Revenue Requirement		$ 119,820,735			
4						
5		GUD 10174 COS		Allocation of		
6		Revenue Requirement	Allocations	Change in Rates		
7	Residential	$ 65,538,316	75.13%	$ 90,017,993		
8	Commercial	16,044,436	18.39%	22,037,305		
9	Industrial and Transportation	1,882,613	2.16%	2,585,801		
10	Public Authority	3,771,075	4.32%	5,179,635		
11		$ 87,236,439		$ 119,820,735		
12						
13						
14				Industrial &		
15		Residential	Commercial	Transportation	Public Authority[1]	
16						
17	Total Margin Per Class	$ 90,017,993	22,037,305	2,585,801	5,179,635	
18						
19	Proposed Customer Charge	$ **16.10**	$ **43.25**	$ **409.00**	$ **122.25**	
20	Annual Number of Bills	3,318,518	288,804	2,477	24,914	
21	Total Customer Charge Revenue	$ 53,428,140	$ 12,490,773	$ 1,013,093	$ 3,045,737	$ 69,977,742
22						
23	Proposed Consumption Charge	$ **0.21224**	$ **0.11722**	$ **0.06895**	$ **0.09518**	
24	Total Volumes	172,395,190	81,442,324	22,809,914	22,419,458	
25	Total Consumption Charge Revenue	$ 36,589,155	$ 9,546,669	$ 1,572,744	$ 2,133,884	$ 49,842,452
26						
27	Total Proposed Revenue	$ 90,017,295	$ 22,037,442	$ 2,585,837	$ 5,179,621	$ 119,820,194
28						
29	Note:					
30	[1] The state institution customers have been combined with public authority.					

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RIDER:	**SUR – SURCHARGES**	
APPLICABLE TO:	**UNINCORPORATED AREAS**	
EFFECTIVE DATE:	**BILLS RENDERED ON OR AFTER**	**PAGE:**

Applicability

The Rate Case Expense Surcharge (RCE) rate as set forth below is pursuant to the Final Order in GUD No. 10743. This monthly rate shall apply to residential, commercial, industrial / transportation, and public authority rate classes of Atmos Energy Corporation's West Texas Division in the rate area and amounts shown below. The fixed-price surcharge rate will be in effect for approximately 12 months until all approved and expended rate case expenses are recovered from the applicable customer classes as documented in the Final Order in GUD No.10743. This rider is subject to all applicable laws and orders, and the Company's rules and regulations on file with the regulatory authority.

Monthly Calculation

Surcharges will be the fixed-price rate shown in the table below:

Rate Schedule	Unincorporated Areas
Residential	$0.15
Commercial	$0.31
Industrial / Transportation	$0.82
Public Authority	$0.89

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**QUALITY OF SERVICE**	
APPLICABLE TO:	**WEST TEXAS SERVICE AREA**	
EFFECTIVE DATE:		

The following minimum service standards are applicable to residential, commercial, public authority and industrial sales customers residing in the unincorporated areas of Atmos Energy Corporation, West Texas Division's ("Atmos Energy, West Texas Division") service territory. These minimum service standards are applicable to residential, commercial, public authority and industrial customers residing in the incorporated areas only to the extent that the minimum service standards do not conflict with standards lawfully established by a particular municipality for Atmos Energy, West Texas Division.

1. Continuity of Service

(A) Service Interruptions.

(i) Atmos Energy, West Texas Division will make all reasonable efforts to prevent interruptions of service. When interruptions occur, Atmos Energy, West Texas Division will reestablish service within the shortest possible time consistent with prudent operating principles so that the smallest numbers of customers are affected.

(ii) Atmos Energy, West Texas Division will make reasonable efforts to meet emergencies resulting from interruptions of service, and will issue instructions to its employees covering procedures to be followed in the event of an emergency in order to prevent or mitigate interruption or impairment of service.

(iii) In the event of national emergency or local disaster resulting in disruption of normal service, Atmos Energy, West Texas Division may, in the public interest, interrupt service to other customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.

(iv) Curtailment of gas service will be done in accordance with the utility's curtailment program as authorized by the appropriate regulatory body. When notified by the utility, the customer will curtail gas service. In the event of any curtailment, utility personnel may physically turn off or restrict gas deliveries and only utility personnel will thereafter be permitted to restore gas service. The customer assumes any and all risk and will indemnify the utility against all damages, losses and expenses resulting from a curtailment of gas service under the utility's authorized curtailment program, except to the extent such damages, losses and expenses result from the gross negligence of the utility.

(B) Record of interruption. Except for momentary interruptions which do not cause a major disruption of service, Atmos Energy, West Texas Division will keep a complete record of all interruptions, both emergency and scheduled. This record will show the cause of interruptions, date, time duration, location, approximate number of customers affected, and, in cases of emergency interruptions, the remedy and steps taken to prevent recurrence.

(C) Report to Commission. Atmos Energy, West Texas Division will notify the Railroad Commission in writing within 48 hours of interruptions in service affecting the entire system or any major division thereof, lasting more than four hours. The notice will also state the cause of such interruptions. If any service interruption is otherwise reported to the Commission (for example, as curtailment report or safety report), such other report will be intended to be sufficient to comply with the terms of this paragraph.

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**QUALITY OF SERVICE**	
APPLICABLE TO:	**WEST TEXAS SERVICE AREA**	
EFFECTIVE DATE:		

2. Customer Relations

(A) Information to customers. Atmos Energy, West Texas Division will:

(i) maintain a current set of maps showing the physical locations of its facilities. All distribution facilities will be labeled to indicate the size and any pertinent information which will accurately describe the utility's facilities. These maps, or such other maps as may be required by the regulatory authority, will be kept by Atmos Energy, West Texas Division in a central location and will be available for inspection by the regulatory authority during normal working hours. Each business office or service center will have available up-to-date maps, or records of its immediate area, with other such information as may be necessary to enable Atmos Energy, West Texas Division to advise applicants and others entitled to the information as to the facilities available for serving the locality;

(ii) assist the customer or applicant in selecting the most economical rate schedule;

(iii) in compliance with applicable law or regulations, notify customers affected by a change in rates or schedule or classification;

(iv) post a notice in a conspicuous place in each business office of Atmos Energy, West Texas Division where applications for service are received informing the public that copies of the rate schedules and rules relating to the service of the utility as filed with the Commission are available for inspection;

(v) upon request, inform its customers as to the method of reading meters;

(vi) provide to new customers, at the time service is initiated or as an insert in the first billing, a pamphlet or information packet containing the following information, in English and Spanish:

(1) the customer's right to information concerning rates and services and the customer's right to inspect or obtain at reproduction cost a copy of the applicable tariffs and service rules;

(2) the customer's right to have his or her meter checked without charge under Section (7) of this Rule, if applicable;

(3) the time allowed to pay outstanding bills;

(4) grounds for termination of service;

(5) the steps Atmos Energy, West Texas Division must take before terminating service;

(6) how the Customer can resolve billing disputes with Atmos Energy, West Texas Division and how disputes and health emergencies may affect termination of service;

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**QUALITY OF SERVICE**	
APPLICABLE TO:	**WEST TEXAS SERVICE AREA**	
EFFECTIVE DATE:		

2. Customer Relations (continued)

(7) information on alternative payment plans, if any, offered by Atmos Energy, West Texas Division;

(8) the steps necessary to have service reconnected after involuntary termination;

(9) the appropriate regulatory authority with whom to register a complaint and how to contact such authority;

(10) the hours, addresses, and telephone numbers of utility offices where bills may be paid and information may be obtained; and

(11) the customer's right to be instructed by Atmos Energy, West Texas Division how to read his or her meter.

(vii) at least once each calendar year, notify each customer that information is available upon request, at no charge to the customer, concerning the items listed in paragraph (vi) (1-11) of this subsection. This notice may be accomplished by use of a billing insert or a printed statement upon the bill itself.

(B) Customer complaints. Upon complaint to Atmos Energy, West Texas Division by residential, commercial, public authority or industrial sales customers either at its office, by letter, or by telephone, Atmos Energy, West Texas Division will promptly make a suitable investigation and advise the complainant of the results thereof. Atmos Energy, West Texas Division will keep a record of all complaints which will show the name and address of the complainant, the date and nature of the complaint, and the adjustment or disposition thereof for a period of one year subsequent to the final disposition of the complaint.

(C) Utility response. Upon receipt of a complaint, either by letter or by telephone, from the regulatory authority on behalf of a customer, Atmos Energy, West Texas Division will promptly make a suitable investigation and advise the regulatory authority and complainant of the results thereof. An initial response will be made by the next working day. Unless additional reply time is granted by the regulatory authority, Atmos Energy, West Texas Division will make a final and complete response within 15 days. The Commission encourages all customer complaints to be made in writing to assist the regulatory authority in maintaining records of the quality of service of each utility; however, telephone communications will be acceptable.

(D) Deferred payment plan. If a deferred payment plan for delinquent residential accounts is offered, it will conform to the following guidelines:

(i) Every deferred payment plan entered into due to the customer's inability to pay the outstanding bill in full must provide that service will not be discontinued if the customer pays current bills and a reasonable amount of the outstanding bill and agrees to pay the balance in reasonable installments until the bill is paid.

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**QUALITY OF SERVICE**	
APPLICABLE TO:	**WEST TEXAS SERVICE AREA**	
EFFECTIVE DATE:		

2. Customer Relations (continued)

(ii) For purposes of determining reasonableness under these rules, the following shall be considered: size of delinquent account; customer's ability to pay; customer's payment history; time that the debt has been outstanding; reasons why debt has been outstanding; and other relevant factors concerning the circumstances of the customer.

(iii) A deferred payment plan, if reduced to writing, offered by Atmos Energy, West Texas Division will state, immediately preceding the space provided for the customer's signature and in bold-face print at least two sizes larger than any other used, that: "If you are not satisfied with this agreement, do not sign. If you are satisfied with this agreement, you give up your right to dispute the amount due under the agreement except for the utility's failure or refusal to comply with the terms of this agreement."

(iv) A deferred payment plan if offered at all, may include a one-time 5.0% penalty for late payment on the gross amount of the outstanding bill with no prompt payment discount allowed except in cases where the outstanding bill is unusually high as a result of the utility's error (such as an inaccurately estimated bill or an incorrectly read meter). A deferred payment plan will not include a finance charge.

(v) If a customer for utility service has not fulfilled terms of a deferred payment agreement or refuses to sign the same if it is reduced to writing, Atmos Energy, West Texas Division will have the right to disconnect pursuant to disconnection rules herein, and under such circumstances, it shall not be required to offer a subsequent negotiation of a deferred payment agreement prior to disconnection.

(vi) Any utility which institutes a deferred payment plan shall not refuse a customer participation in such a program on the basis of race, color, creed, sex, marital status, age, or any other form of discrimination prohibited by law.

(E) Delayed payment of bills by elderly persons to residential customers.

(i) Applicability. This subparagraph applies only to:

(I) a utility that assesses late payment charges to residential customers and that suspends service before the 26th day after the date of the bill for which collection action is taken;

(2) utility bills issued on or after August 30, 1993; and

(3) an elderly person, as defined in clause (ii) of this subparagraph, who is a residential customer and who occupies the entire premises for which a delay is requested.

(ii) Definitions.

(1) Elderly person – A person who is 60 years of age or older

(2) Utility – A gas utility or municipally owned utility as defined in Texas Utilities Code, 101.003(7), 101.003(8), and 121.001 – 121.006.

(iii) An elderly person may request that the utility implement the delay for either the most recent utility bill or for the most recent utility bill and each subsequent utility bill.

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	QUALITY OF SERVICE	
APPLICABLE TO:	WEST TEXAS SERVICE AREA	
EFFECTIVE DATE:		

(iv) On request of an elderly person, a utility shall delay without penalty the payment date of a bill for providing utility services to that person until the 25th day after the date on which the bill is issued.

(v) Atmos Energy, West Texas Division may require the requesting person to present reasonable proof that the person is 60 years of age or older.

(vi) Every utility shall notify its customers of this delayed payment option no less often than yearly. A utility may include this notice with other information provided pursuant to subparagraph (A) of this paragraph.

(F) Budget Billing - The Company offers an optional budget billing plan to moderate seasonal differences in customer bills. The details of the plan are published on the Company's website

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**QUALITY OF SERVICE**	
APPLICABLE TO:	**WEST TEXAS SERVICE AREA**	
EFFECTIVE DATE:		

3. Refusal of Service

(A) Compliance by applicant. Atmos Energy, West Texas Division may decline to serve an applicant for whom service is available from previously installed facilities until such applicant has complied with applicable state and municipal regulations and approved rules and regulations and tariff provisions of Atmos Energy, West Texas Division on file with the Commission governing the service applied for or for any of the following reasons:

(i) Applicant's facilities inadequate. If the applicant's installation, equipment or possible misuse of gas service is believed to be hazardous or of such character that satisfactory service cannot be given.

(ii) For indebtedness. If the applicant is indebted to any utility for the same kind of service as that applied for; provided, however, that in the event the indebtedness of the applicant for service is in dispute, the applicant shall be served upon complying with the applicable deposit requirement.

(iii) Refusal to make deposit. For refusal to make a deposit if applicant is required to make a deposit under these rules.

(B) Applicant's recourse. In the event that Atmos Energy, West Texas Division refuses to serve an applicant under the provisions of these rules, Atmos Energy, West Texas Division will inform the applicant of the basis of its refusal and that the applicant may file a complaint with the municipal regulatory authority or commission, whichever is appropriate.

(C) Insufficient grounds for refusal to serve. The following do not constitute sufficient cause for refusal of service to a present customer or applicant:

(i) Delinquency in payment for service by a previous occupant of the premises to be served.

(ii) Failure to pay for merchandise or charges for non-utility service purchased from Atmos West Texas.

(iii) Failure to pay a bill to correct previous under billing due to misapplication of rates more than six months prior to the date of application;

(iv) Violation of Atmos Energy, West Texas Division' rules pertaining to operating of nonstandard equipment or unauthorized attachments which interfere with the service of others unless the customer has first been notified and been afforded reasonable opportunity to comply with these rules. [Please see 4(D)(ii) below]

(v) Failure to pay a bill of another customer as guarantor thereof unless the guaranty was made in writing to the utility as a condition precedent to service.

(vi) Failure to pay the bill of another customer at the same address except where the change of customer identity is made to avoid or evade payment of a utility bill.

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**QUALITY OF SERVICE**	
APPLICABLE TO:	**WEST TEXAS SERVICE AREA**	
EFFECTIVE DATE:		

4. Discontinuance of Service

(A) The due date of the bill for utility service will not be less than 15 days after issuance, or such other period of time as may be provided by order of the regulatory authority. A bill for utility service is delinquent if unpaid by the due date.

(B) Atmos Energy, West Texas Division may offer an inducement for prompt payment of bills to residential and commercial customers by allowing a discount in the amount of five percent (or such other amount as allowed by the appropriate regulatory authority) for payment of bills within 10 days after their issuance. This provision shall not apply where it conflicts with existing orders or ordinances of the appropriate regulatory authority.

(C) A customer's utility service may be disconnected if the bill has not been paid or a deferred payment plan pursuant to (2) (D) above has not been entered into within five working days after the bill has become delinquent and proper notice has been given. Proper notice consists of a deposit in the United States mail, postage prepaid, or hand delivery to the customer at least five working days prior to the stated date of disconnection, with the words "Termination Notice" or similar language prominently displayed on the notice. The notice will be provided in English and Spanish as necessary to adequately inform the customer, and will include the date of termination, the hours, address, and telephone number where payment may be made, and a statement that if a health or other emergency exists, Atmos Energy, West Texas Division may be contacted concerning the nature of the emergency and the relief available, if any, to meet such emergency.

(D) Utility service may be disconnected for any of the following reasons:

(i) Failure to pay a delinquent account or failure to comply with the terms of a deferred payment plan for installment payment of a delinquent account.

(ii) Violation of Atmos Energy, West Texas Division' rules pertaining to the use of service or in a manner which interfered with the service of others or the operation of nonstandard equipment, if a reasonable attempt has been made to notify the customer and the customer is provided with a reasonable opportunity to remedy the situation.

(iii) Failure to comply with the deposit or guarantee arrangements required by paragraph (5) of this subsection.

(iv) Without notice where a known dangerous condition exists, for as longs as the condition exists.

(v) Tampering with Atmos Energy, West Texas Division' meter or equipment or bypassing the same.

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**QUALITY OF SERVICE**	
APPLICABLE TO:	**WEST TEXAS SERVICE AREA**	
EFFECTIVE DATE:		

4. Discontinuance of Service (continued)

(E) Utility service may not be disconnected for any of the following reasons:

(i) Delinquency in payment for service by a previous occupant of the premises.

(ii) Failure to pay for merchandise or charges for non-utility service by Atmos Energy, West Texas Division.

(iii) Failure to pay for a different type or class of utility service unless fee for such service is or could have been included on same bill.

(iv) Failure to pay the account of another customer as guarantor thereof, unless the utility has in writing the guarantee as a condition precedent to service.

(v) Failure to pay charges arising from an under billing occurring due to any misapplication of rates more than six months prior to the current billings.

(vi) Failure to pay charges arising from an under billing due to any faulty metering, unless the meter has been tampered with or unless such under billing charges are due.

(vii) Failure to pay an estimated bill other than a bill rendered pursuant to an approved meter reading plan, unless Atmos Energy, West Texas Division was unable to read the meter due to circumstances beyond its control.

(F) Unless a dangerous or potentially fraudulent condition exists, or unless the customer request disconnection, service will not be disconnected on a day, or on a day immediately preceding a day, when Atmos Energy, West Texas Division personnel are not available to the public for the purpose of making collections and reconnecting service.

(G) Atmos Energy, West Texas Division may not abandon a residential or commercial customer without written approval from the regulatory authority.

(H) Atmos Energy, West Texas Division will not discontinue service to a delinquent residential customer permanently residing in an individually metered dwelling unit when that customer established that discontinuance of service will result in some person residing at that residence becoming seriously ill if service is discontinued. Any customer seeking to avoid termination of service under this section must make a written request supported by a written statement from a licensed physician. Both the request and the statement must be received by Atmos Energy, West Texas Division not more than five working days after the date of delinquency of the bill. The prohibition against service termination provided by this section will last twenty days from the date of receipt by Atmos Energy, West Texas Division of the request and statement or such lesser period as may be agreed upon by Atmos Energy, West Texas Division and the customer. The customer who makes such request shall sign an installment agreement which provides for such service contingent upon timely payment for subsequent monthly billings.

WEST TEXAS DIVISION
ATMOS ENERGY CORPORATION

RATE SCHEDULE:	**QUALITY OF SERVICE**	
APPLICABLE TO:	**WEST TEXAS SERVICE AREA**	
EFFECTIVE DATE:		

4. Discontinuance of Service (continued)

(I) Suspension of Gas Utility Service Disconnection during an Extreme Weather Emergency

(A) Applicability and scope. This rule applies to gas utilities, as defined in Texas Utilities Code, §101.003(7) and §121.001, and to owners, operators, and managers of mobile home parks or apartment houses who purchase natural gas through a master meter for delivery to a dwelling unit in a mobile home park or apartment house, pursuant to Texas Utilities Code, §§124.001-124.002, within the jurisdiction of the Railroad Commission pursuant to Texas Utilities Code, §102.001. For purposes of this section, all such gas utilities and owners, operators and managers of master meter systems shall be referred to as "providers." Providers shall comply with the following service standards. A gas distribution utility shall file amended service rules incorporating these standards with the Railroad Commission in the manner prescribed by law.

(B) Disconnection prohibited. Except where there is a known dangerous condition or a use of natural gas service in a manner that is dangerous or unreasonably interferes with service to others, a provider shall not disconnect natural gas service to:

(1) a delinquent residential customer during an extreme weather emergency. An extreme weather emergency means a day when the previous day's highest temperature did not exceed 32 degrees Fahrenheit and the temperature is predicted to remain at or below that level for the next 24 hours according to the nearest National Weather Station for the county where the customer takes service.

(2) a delinquent residential customer for a billing period in which the provider receives a written pledge, letter of intent, purchase order, or other written notification from an energy assistance provider that it is forwarding sufficient payment to continue service; or

(3) a delinquent residential customer on a weekend day, unless personnel or agents of the provider are available for the purpose of receiving payment or making collections and reconnecting service.

(C) Payment plans. Providers shall defer collection of the full payment of bills that are due during an extreme weather emergency until after the emergency is over, and shall work with customers to establish a payment schedule for deferred bills as set forth in paragraph (2)(D) of §7.45 of this title, relating to Quality of Service.

(D) Notice. Beginning in the September or October billing periods utilities and owners, operators, or managers of master metered systems shall give notice as follows:

(1) Each utility shall provide a copy of this rule to the social services agencies that distribute funds from the Low Income Home Energy Assistance Program within the utility's service area.

(2) Each utility shall provide a copy of this rule to any other social service agency of which the provider is aware that provides financial assistance to low income customers in the utility's service area.

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4. Discontinuance of Service (continued)

(3) Each utility shall provide a copy of this rule to all residential customers of the utility and customers who are owners, operators, or managers of master metered systems.

(4) Owners, operators, or managers of master metered systems shall provide a copy of this rule to all of their customers.

(E) In addition to the minimum standards specified in this section, providers may adopt additional or alternative requirements if the provider files a tariff with the Commission pursuant to §7.315 of this title (relating to Filing of Tariffs). The Commission shall review the tariff to ensure that at least the minimum standards of this section are met.

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5. Applicant Deposit

(A) Establishment of credit for residential applicants. Atmos Energy, West Texas Division may require a residential applicant for service to satisfactorily establish credit but such establishment of credit shall not relieve the customer from complying with rules for prompt payment of bills. Subject to these rules, a residential applicant will not be required to pay a deposit:

(i) if the residential applicant has been a customer of any utility for the same kind of service within the last two years and is not delinquent in payment of any such utility service account and during the last 12 consecutive months of service did not have more than one occasion in which a bill for such utility service was paid after becoming delinquent and never had service disconnected for nonpayment.

(ii) if the residential applicant furnishes in writing a satisfactory guarantee to secure payment of bills for other service required; or

(iii) if the residential applicant furnishes in writing a satisfactory credit rating by appropriate means, including but not limited to the production of generally acceptable credit cards, letters of credit reference, the names of credit references which may be quickly and inexpensively contacted by Atmos Energy, West Texas Division, or ownership of substantial equity.

(B) Reestablishment of credit. Every applicant who has previously been a customer of Atmos Energy, West Texas Division and whose service has been discontinued for nonpayment of bills shall be required before service is rendered to pay all amounts owed to Atmos Energy, West Texas Division by the customer or execute a written deferred payment agreement, if offered, and reestablish credit as provided in subparagraph (A) of this part.

(C) Amount of deposit and interest for residential service, and exemption from deposit.

(i) The required deposit will not exceed an amount equivalent to 1/6 of the estimated annual billings. However, if actual use is at least twice the amount of the estimated billings, a new deposit requirement may be calculated and an additional deposit may be required within two days. If such additional deposit is not made, Atmos Energy, West Texas Division may disconnect service under the standard disconnection procedure for failure to comply with deposit requirements. In the absence of billing history, the default deposit amount is $90.00.

(ii) All applicants for residential service who are 65 years of age or older will be considered as having established credit if such applicant does not have an outstanding account balance with Atmos Energy, West Texas Division or another utility for the same utility service which accrued within the last two years. No cash deposit shall be required of such applicant under these conditions.

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5. Applicant Deposit (continued)

(iii) Atmos Energy, West Texas Division will pay a minimum interest on such deposits according to the rate as established by law. If refund of deposit is made within 30 days of receipt of deposit, no interest payment is required. If the utility retains the deposit more than 30 days, payment of interest shall be made retroactive to the date of deposit.

(1) Payment of interest to the customer will be annually or at the time the deposit is returned or credited to the customer's account.

(2) The deposit shall cease to draw interest on the date it is returned or credited to the customers account.

(iv) Atmos Energy, West Texas Division shall waive any deposit requirement for residential service for an applicant who has been determined to be a victim of family violence as defined in Texas Family Code, §71.004, by a family violence center, by treating medical personnel, by law enforcement agency personnel, or by a designee of the Attorney General in the Crime Victim Services Division of the Office of the Attorney General. This determination shall be evidenced by the applicant's submission of a certification letter developed by the Texas Council on Family Violence and made available on its web site.

(D) Atmos Energy, West Texas Division may require a deposit from commercial or industrial customer sufficient to reasonably protect it against the risk exposure, provided such a policy is applied in a uniform and nondiscriminatory manner.

(E) Records of deposits.

(i) Atmos Energy, West Texas Division shall keep records to show:

(1) the name and address of each depositor;

(2) the amount and date of the deposit; and

(3) each transaction concerning the deposit.

(ii) Atmos Energy, West Texas Division will issue a receipt of deposit to each applicant from whom a deposit is received and shall provide means whereby a depositor may establish claim if the receipt is lost.

(iii) A record of each unclaimed deposit will be maintained for at least four years, during which time Atmos Energy, West Texas Division will make a reasonable effort to return the deposit.

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5. Applicant Deposit (continued)

(F) Refund of deposit.

(i) If service is not connected or after disconnection of service, Atmos Energy, West Texas Division will promptly and automatically refund the customer's deposit plus accrued interest or the balance, if any, in excess of the unpaid bills for service furnished. The transfer of service from one premise to another within Atmos Energy, West Texas Division' service area will not be deemed a disconnection within the meaning of these rules, and no additional deposit may be demanded unless permitted by these rules.

(ii) When the customer has paid bills for 12 consecutive residential bills without having service disconnected for nonpayment of bill and without having more than two occasions in which a bill was delinquent and when the customer is not delinquent in the payment of the current bill, Atmos Energy, West Texas Division will promptly and automatically refund the deposit plus accrued interest to the customer in the form of cash or credit to a customer's account.

(G) Upon sale or transfer of utility or company. Atmos Energy, West Texas Division will comply with Railroad Commission regulations which provide that upon the sale or transfer of any public utility or operating units thereof, the seller shall file with the Commission under oath, in addition to other information, a list showing the names and addresses of all customers served by such utility or units thereof who have to their credit a deposit, the date such deposit was made, the amount thereof, and the unpaid interest thereon.

(H) Complaint by applicant or customer. Atmos Energy, West Texas Division will direct its personnel engaged in initial contact with customer or applicant for service seeking to establish or reestablish credit under the provisions of these rules to inform the customer, if dissatisfaction is expressed with the utility's decision, of the customer's right to file a complaint with the regulatory authority.

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6. Billing

(A) Bills for gas service will be rendered monthly, unless otherwise authorized or unless service is rendered for a period less than a month. Bills will be rendered as promptly as possible following the reading meters.

(B) The customer's bill will show all the following information. The information will be arranged and displayed in such a manner as to allow the customer to compute his bill with the applicable rate schedule. The applicable rate schedule will be mailed to the customer on request of the customer.

(i) If the meter is read by Atmos Energy, West Texas Division, the date and reading of the meter at the beginning and end of the period for which rendered.

(ii) The number and kind of units billed.

(iii) The applicable rate schedule title or code.

(iv) The total base bill.

(v) The total of any adjustments to the base bill and the amount of adjustments per billing unit.

(vi) The date by which the customer must pay the bill to get prompt payment discount.

(vii) The total amount due before and after any discount for prompt payment within a designated period.

(viii) A distinct marking to identify an estimated bill.

(C) Where there is a good reason for doing so, estimated bills may be submitted, provided that an actual meter reading is taken at least every six months, if possible. For the second consecutive month in which the meter reader is unable to gain access to the premises to read the meter on regular meter reading trips, or in months where meters are not read otherwise, Atmos Energy, West Texas Division will provide the customers with a postcard and request that the customer read the meter and return the card to Atmos Energy, West Texas Division if the meter is of a type that can be read by the customer without significant inconvenience or special tools or equipment. If such a postcard is not received by Atmos Energy, West Texas Division in time for billing, Atmos Energy, West Texas Division may estimate the meter reading and render the bill accordingly.

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6. Billing (continued)

(D) Disputed bills.

(i) In the event of a dispute between the customer and Atmos Energy, West Texas Division regarding the bill, Atmos Energy, West Texas Division will make such investigation as is required by the particular case and report the results to the customer. If the customer wishes to obtain the benefits of subsection (ii) hereunder, notification of the dispute must be given to Atmos Energy, West Texas Division before the date the bill becomes delinquent. In the event the dispute is not resolved, Atmos Energy, West Texas Division will inform the customer of the complaint procedures of the appropriate regulatory authority.

(ii) Notwithstanding any other subsection of this section, the customer will not be required to pay the disputed portion of the bill which exceeds the amount of that customer's average usage for the billing period at current rates until the earlier of the following: (1) resolution of the dispute, (2) the expiration of the sixty day period beginning on the day the disputed bill is issued. For purposes of this section only, the customer's average usage for the billing period shall be the average of the customer's usage for the same billing period during the preceding two years. Where no previous usage history exists, the average usage shall be estimated on the basis of usage levels of similar customers and under similar conditions.

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7. Meters

(A) Meter requirements.

(i) Use of meter. All gas sold by Atmos Energy, West Texas Division will be charged for by meter measurements, except where otherwise provided for by applicable law, regulation of the regulatory authority, or tariff.

(ii) Installation by utility. Unless otherwise authorized by the regulatory authority, Atmos Energy, West Texas Division will provide, install and continue to own and maintain all meters necessary for measurement of gas delivered to its residential and commercial customers.

(iii) Standard type. Atmos Energy, West Texas Division will not furnish, set up, or put in use any meter which is not reliable and of a standard type which meets generally accepted industry standards; provided, however, special meters not necessarily conforming to such standard types may be used for investigation, testing, or experimental purposes.

(iv) Access to premises and access to company owned meters and service lines. Atmos Energy, West Texas Division' representatives shall have the right at all reasonable hours to enter upon the premises and property of a customer to read a company owned meter, to remove, to inspect, or to make necessary repairs and adjustments to, or replacements of, service lines, meter loop, and any property of the utility located thereon, and for any other purpose connected with the utility's operation. The Atmos Energy, West Texas Division representative shall have the right at all time to enter upon the premises and property of the customer in emergencies pertaining to the company's service. All animals which might hinder the performance of such operations on the customer's property shall be kept away from such operations by the customer upon notice by Atmos Energy, West Texas Division' representatives of their intention to enter upon the customer's premises.

(B) Meter records. Atmos Energy, West Texas Division will keep the following records:

(i) Meter equipment records. Atmos Energy, West Texas Division will keep a record of all of its meters, showing the customer's address and the date of the last test.

(ii) Records of meter tests. All meter tests will be properly referenced to the meter record provided for therein. The record of each test made on request of a customer will show the identifying number and constants of the meter, the standard meter and other measuring devices used, the date and kind of test made, by whom made, the error (or percentage of accuracy) at each load tested, and sufficient data to permit verification of all calculations.

(iii) Meter units of service. In general, each meter will indicate clearly the units of service for which charge is made to the customer.

(iv) Meter tests on request of customer.

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7. Meters (continued)

(I) Upon request of a customer, Atmos Energy, West Texas Division will make a test of the accuracy of the meter serving that customer. Atmos Energy, West Texas Division will advise the customer that they may be present at the time and place of the test and arrange a schedule to permit the customer or his authorized representative to witness the test if the customer so desires. If no such test has been performed within the previous four years for the same customer at the same location, the test is to be performed without charge. If such a test has been performed for the same customer at the same location within the previous four years, Atmos Energy, West Texas Division may charge a fee for the test not to exceed $15 or such other fee for the testing of meters as may be set forth in the utility's tariff properly on file with the regulatory authority. The customer will be informed of the result of any test on a meter that serves him or her.

(II) Notwithstanding sub clause (I) of this clause, if the meter is found to be more than normally defective, to either the customer's or Atmos Energy, West Texas Division' disadvantage, any fee charged for the meter test will be refunded to the customer. More than nominally defective means a deviation of more than 2.0% from accurate registration for residential and commercial customers and 1% for industrial customers.

(V) Bill adjustments due to meter error.

(I) If any meter test reveals a meter to be more than nominally defective, Atmos Energy, West Texas Division must correct previous readings consistent with the inaccuracy found in the meter for the period of either:

(a) the last six months; or

(b) the time since the last test of the meter, whichever is shorter. Any resulting under billings or over billings is to be corrected in subsequent bills, unless service is terminated in which event a monetary adjustments to be made. This requirement for a correction may be foregone by Atmos Energy, West Texas Division if the error is to the utility's disadvantage.

(II) If a meter is found not to register for any period of time, Atmos Energy, West Texas Division may make a charge for units used but not metered for a period not to exceed three months previous to the time the meter is found not to be registering. The determination of amounts used but not metered is to be based on consumption during other like periods by the same customer at the same location, when available, and on consumption under similar conditions at the same location or of other similarly situated customers, when not available.

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8. New Construction

(A) Standards of construction. Atmos Energy, West Texas Division will endeavor to construct, install, operate, and maintain its plant, structures, equipment, and lines in accordance with the provisions of such codes and standards as are generally accepted by the industry, as modified by rule or regulation of the regulatory authority or otherwise by law and in such manner to best accommodate the public and to prevent interference with service furnished by other public utilities insofar as practical.

(B) Line extension and construction charge policy. In the absence of a line extension policy specific to a city franchise agreement, the following policy shall apply. Atmos Energy, West Texas Division may require, on a consistent and non-discriminatory basis, pre-payment, reimbursement, or adequate security for all costs (including, but not limited to, materials, labor, allocated overhead, permit costs and right-of-way acquisition costs) of extending its existing pipeline system to serve a new customer to the extent that extension would exceed 75 feet. The applicable provisions of city franchise agreements, which set forth line extension and construction charge policies that differ from the above policy are on file with the applicable municipality and the Railroad Commission of Texas.

Atmos Energy, West Texas Division reserves the sole discretion to designate the routes of all new extensions and the construction materials and manner of fabrication and installation. Atmos Energy, West Texas Division may, on a consistent and non-discriminatory basis, provide for refunds, credits or security releases based upon factors such as additional customers subsequently attaching, the level of sales experienced through the new facility, or other criteria chosen by Atmos Energy, West Texas Division. Atmos Energy, West Texas Division may apply similar cost responsibility and arrangements to a customer requesting an increase in the capacity of existing Atmos Energy, West Texas Division facilities to accommodate an increase in the customer's service requirements. In no event will contribution in aid of construction be required of any residential customer unless provided for in this extension policy.

(C) Response to request for service. Atmos Energy, West Texas Division will endeavor to serve each qualified applicant for residential or commercial service within its service area as rapidly as practical. As a general policy, those applications not involving line extensions or new facilities should be filled within seven working days. Those applications for individual residential service requiring line extensions should be filled within 90 days unless unavailability of materials or other causes beyond the control of Atmos Energy, West Texas Division result in unavoidable delays. In the event that residential service is delayed in excess of 90 days after an applicant has met credit requirements and made satisfactory arrangements for payment of any required construction charges, a report will be made to the regulatory authority listing the name of the applicant, location, and cause for delay. If such delays are due to causes which are reasonably beyond the control of Atmos Energy, West Texas Division, a delay in excess of 90 days will not constitute a refusal to serve.

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9. Non-Liability

(A) Furnishing of Gas. The Company shall not be liable for any loss or damage caused by variation in gas pressure, defects in pipes, connections and appliances, escape or leakage of gas, sticking of valves or regulators, or for any other loss or damage not caused by the Company's negligence arising out of or incident to the furnishing of gas to any Consumer.

(B) After Point of Delivery. Company shall not be liable for any damage or injury resulting from gas or its use after such gas leaves the point of delivery other than damage caused by the fault of the Company in the manner of installation of the service lines, in the manner in which such service lines are repaired by the Company, and in the negligence of the Company in maintaining its meter loop. All other risks after the gas left the point of delivery shall be assumed by the Consumer, his agents, servants, employees, or other persons.

(C) Reasonable Diligence. The Company agrees to use reasonable diligence in rendering continuous gas service to all Consumers, but the Company does not guarantee such service and shall not be liable for damages resulting from any interruption to such service.

(D) Force Majeure. Company shall not be liable for any damage or loss caused by stoppage or curtailment of the gas supply pursuant to order of a governmental agency having jurisdiction over Company or Company's suppliers, or caused by an event of force majeure. The term "force majeure" as employed herein means acts of God; strikes, lockouts, or other industrial disturbances; acts of the public enemy; wars; blockades; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; storms; floods; washouts; arrests and restraints of the government, either federal or state, civil or military; civil disturbances; explosions; breakage or accident to machinery or lines of pipe; freezing of wells or lines of pipe; shortage of gas supply, whether resulting from inability or failure of a supplier to deliver gas; partial or entire failure of natural gas wells or gas supply; depletion of gas reserves; and any other causes, whether of the kind herein enumerated or otherwise.

240530114

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, MAY 13, 2024

APPLICATION OF

ATMOS ENERGY CORPORATION CASE NO. PUR-2023-00008

For a general increase in rates

FINAL ORDER

On June 30, 2023, Atmos Energy Corporation ("Atmos" or "Company") filed an application ("Application") with the State Corporation Commission ("Commission") for a general increase in rates pursuant to Chapter 10 of Title 56 of the Code of Virginia ("Code"). In its Application, the Company requested authority to increase its rates and charges, revise the terms and conditions applicable to natural gas service, and to implement its proposed rates, charges, and revised terms and conditions on an interim basis, subject to refund, effective for service rendered on or after November 30, 2023.[1]

In its Application, the Company sought a rate increase that would produce additional annual jurisdictional revenues of $3,178,349, or an overall increase of approximately 26.42%, based on an 11.15% return on equity ("ROE").[2] Among other things, Atmos proposed an increase in the monthly customer charges for Schedule 610 residential customers to $16.00 from the current rate of $10.24, with similar changes in the monthly customer charges for other rate classes.[3]

[1] Ex. 2 (Application) at 1.

[2] *Id.* at 2.

[3] *Id.* at 3; *see* Ex. 4 (Direct Testimony of Brannon C. Taylor ("Taylor Direct")) at 7; Ex. 2 (Application) at Schedule 43.

Additionally, the Company proposed revisions to its tariffs and Terms and Conditions of Service, to include: (i) modernization of the Company's terms and conditions of service to align with current operations and to be consistent with those of existing Virginia local distribution companies; (ii) clarification of the responsibilities of the utility and its customers; (iii) a proposal to remove late payment fees and miscellaneous service fees and instead include these in base rates; and (iv) a proposed new provision to its general terms and conditions, Section 8.1(c) (4), related to the construction of line extensions by the Company to serve new customers.[4]

Consistent with the requirements of Code § 56-238, Atmos requested to place its proposed changes to its rates and terms and conditions into effect for service rendered on or after November 30, 2023, on an interim basis, subject to refund, until the Commission issued its final order in this proceeding.[5]

On August 21, 2023, the Commission issued an Order for Notice and Hearing in this matter which, among other things, required Atmos to provide public notice of its Application; directed the Commission's Staff ("Staff") to investigate the Application and file testimony and exhibits containing their findings and recommendations thereon; set this matter for hearing on March 12, 2024, to receive testimony from public witnesses and evidence offered by Atmos, respondents and Staff; suspended the proposed rates, charges, and terms and conditions of service pursuant to § 56-238 of the Code; authorized Atmos to begin implementing the proposed rates for service rendered on and after November 27, 2023, on an interim basis, subject to refund with interest; and appointed a Hearing Examiner to conduct all further proceedings on behalf of the Commission.

[4] Ex. 2 (Application) at 3; *see* Ex. 4 (Taylor Direct) at 8-11.

[5] Ex. 2 (Application) at 4.

On October 30, 2023, the Company filed a Motion for Authority to Implement Tax Rider in Conjunction with Interim Rates.[6] On November 3, 2023, Staff filed the Response of Staff to Motion for Authority to Implement Tax Rider in Conjunction with Interim Rates. By Hearing Examiner's Ruling entered on November 6, 2023, the Company was authorized to put its EDIT Credit Rider into effect on December 1, 2023.

No respondents filed notices of participation. The Commission received two public comments on the Application.

Staff filed the testimony of its witnesses on February 6, 2024.

On February 27, 2024, Atmos and Staff (together, "Stipulating Participants") filed a Joint Motion to Accept Stipulation ("Motion") and accompanying stipulation and proposed recommendation ("Stipulation"), in which both parties agreed *inter alia* as follows:[7]

1. Revenue Requirement: The total incremental non-gas revenue requirement is $2,752,274, effective for service rendered on or after December 1, 2023. This represents a settlement as to a specific revenue number but not as to a specific ROE, specific accounting adjustments, or specific ratemaking methodologies at issue unless otherwise set forth herein.

2. Capital Structure:

   a. The following capital structure will be used to set rates in any non-base rate proceeding until the Company next seeks to change its base rates:

[6] Excess Deferred Income Taxes ("EDIT").

[7] Ex. 13 (Stipulation) at 1-5. The Motion stated that Atmos entered into the Stipulation in lieu of filing rebuttal testimony. Motion at 1.

In Thousands

Component		Amount	Weight	Cost Rate	Weighted Cost
Short-Term Debt	$	14,522	0.09%	5.62%	0.005%
Long-Term Debt	$	6,623,467	39.32%	3.98%	1.564%
Common Equity	$	10,205,206	60.59%	9.90%	5.998%
Total Capitalization	$	16,843,195	100.00%		7.567%

b. For purposes of settlement, the revenue requirement in any rate application or any rate filing, other than an application for a change in base rates, will be calculated using the overall weighted average cost of capital, as shown above using a 9.9% ROE, effective December 1, 2023. In Annual Informational Filings prior to the Company's next base rate case, subsequent test year capital structures should be consistent with Staff's recommended methodology and incorporate a 9.9% ROE. The 9.9% ROE will also be used in earnings test analyses beginning December 2023 and in the Company's proposed revenue requirement in expedited rate cases.

3. <u>Earnings Test</u>: The results of the earnings test for the year ended September 30, 2022, demonstrate that the Company's earned ROE was 7.61%. The Company has no regulatory assets on its books subject to the earnings test, and no further action is required as a result of the earnings test for that period.

4. <u>Depreciation Rates</u>: The Stipulating Participants agree to the booking of depreciation rates as memorialized in Staff's November 27, 2023 and December 29, 2023 letters, attached to Staff Witness Vinson's Appendix C, pages 155-161 and included in Attachment A to this Stipulation. Depreciation rates for Virginia Division 96 are effective as of the October 1, 2022 depreciation study rate.

5. <u>SAVE Baseline</u>: To the extent the Company includes a different Steps to Advance Virginia's Energy Plan ("SAVE") balance in a subsequent SAVE rider,[8] recovery in the SAVE rider of net SAVE investment for the period ending September 30, 2023 should be limited to amounts not already recovered in the Company's base rates. Net SAVE investment as of September 30, 2023, excluded from base rates[,] is as follows:

[8] The Company's current SAVE Rider was approved by the Commission in *Application of Atmos Energy Corporation, For approval of a 2023 SAVE Rider Projected Factor and True-Up Factor and to amend the SAVE Plan*, Case No. PUR-2023-00091, Doc. Con. Cen. No. 230910191, Order Approving SAVE Plan Amendment and Rider (Sept. 11, 2023).

Utility Plant in Service	$11,679,770
Construction Work in Progress	$217,203
Accumulated Depreciation	$2,683,043
Accumulated Deferred Income Tax	($99,140)
Net SAVE Investment	$14,480,876

6. General Rules and Regulations: With the exception of the Company's proposed changes to its miscellaneous service charges, which are further discussed in Paragraph (7), the Stipulating Participants recommend that the Commission approve the Company's modifications to its General Rules and Regulations, with further modifications as recommended by Staff on pages 25-28 and 42-43 of the pre-filed testimony of Staff Witness Katsarelis and in the pre-filed testimony of Staff Witness Connolly. These modifications are provided in Attachment B [to the Stipulation] and reflect the following:

a. The Company's proposed revisions/additions to the following sections of its General Rules and Regulations, as reflected in Schedule 41 of the Application without further modification:

i. "Definitions"
ii. "Application for Service"
iii. "Customer Facilities and Responsibility"
iv. "Refusal to Serve Proposed or Potential Customers"
v. "Meters and Services"
vi. "Other Conditions of Service"

b. The Company's proposed revisions to the "Discontinuance and Restoration of Service" section of its General Rules and Regulations, as reflected in Schedule 41 of the Application and as further modified by Staff on pages 27-28 of the pre-filed testimony of Staff witness Katsarelis.

c. The Company's proposed revisions to the "Extension and Installation of Company Facilities" section of its General Rules and Regulations (referred to as the "Line Extension Policy"), as reflected in Schedule 41 of the Application. Such Line Extension Policy shall be further modified to specify that the Minimum Margin Requirement will only apply to Large C&I[9] and transportation customers as recommended by Staff on pages 42-43 of the pre-filed testimony of Staff Witness Katsarelis.

[9] C&I refers to commercial and industrial customers.

d. The Company will remove the provision in Section 11.15 of the General Rules and Regulations that allows customers to request removal of the Excess Flow Valve from their service lines.

7. Miscellaneous Service Charges: The following miscellaneous service charges in the Company's Rate Schedules and the Company's General Rules and Regulations, as reflected in Attachment B to this Stipulation, will be effective on the first day of the month that is at least two weeks from the Commission's issuance of the Final Order in this proceeding but not to exceed 60 days from such Final Order:

    i. Late Payment Charge: 1.5%
    ii. Activation Charge: $40.00
    iii. Reconnection Charge: $23.00
    iv. Read Charge: $4.00
    v. Visit Fee: $20.00
    vi. Returned Check Charge: $3.00

8. Rate Design and Class Cost of Service ("COS"): The Stipulating Participants accept the Company's COS study, as modified by Staff and presented in Attachment TSK-2 of the pre-filed testimony of Staff Witness Katsarelis. Rates established in this proceeding will be calculated using the revenue apportionment proposed by Staff on pages 14-15 and 17 of the pre-filed testimony of Staff Witness Katsarelis, as shown in Attachment C [to the Stipulation], and the revenue requirement specified in Paragraph (1). Resulting rates will be developed as shown in Attachment D. An illustrative calculation of the impact of average monthly customer bills by rate class is shown in Attachment E. Resulting rates are also reflected in the Company's Rate Schedules in Attachment B to this Stipulation.

    The customer charge for Rate Schedule 610 (Residential) will be increased to $13.24. No other changes to the Company's customer charges will be made.

The evidentiary hearing was convened on March 12, 2024, with counsel for Atmos and Staff in attendance. No public witnesses signed up to testify.[10]

On March 20, 2024, the Report of Michael D. Thomas, Senior Hearing Examiner ("Report") was issued. On March 27, 2024, Atmos and Staff filed comments on the Senior

[10] Tr. 9.

Hearing Examiner's Report, both in support of the Senior Hearing Examiner's findings and recommendations.

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds as follows.[11]

In his Report, the Senior Hearing Examiner issued the following findings and recommendations:[12]

> Based on the evidence submitted in the record, I find the proposed Stipulation is fair, reasonable, in the public interest, and is supported by the evidence in the record. Accordingly, I *RECOMMEND* the Commission enter an order that:
>
> (1) *ADOPTS* the Stipulation attached to the Report;
>
> (2) *APPROVES* a total incremental non-gas revenue requirement of $2,752,274, effective for service rendered on and after December 1, 2023;
>
> (3) *APPROVES* the stipulated revenue allocation and rate design;
>
> (4) *APPROVES* the stipulated revisions to the Company's General Rules and Regulations, revised miscellaneous fees, and revised residential customer charge; and
>
> (5) *DISMISSES* this case from the Commission's docket of active cases.

Upon consideration of this matter, the Commission concludes that the Senior Hearing Examiner's rulings, findings, and recommendations are supported by the law and evidence, have a rational basis, and are adopted herein. In so doing, the Commission approves the Stipulation.

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[11] The Commission has fully considered the evidence and arguments in the record. *See also Board of Supervisors of Loudoun County v. State Corp. Comm'n*, 292 Va. 444,454 n.10 (2016) ("We note that even in the absence of this representation by the Commission, pursuant to our governing standard of review, the Commission's decision comes to us with a presumption that it considered all of the evidence of record.") (citation omitted).

[12] Report at 24.

The Commission recognizes that this approval will result in an increase to an average residential customer's monthly bill of $5.92.[13] The Commission last addressed the Company's base rates in March 2019.[14] The Commission agrees with the Hearing Examiner's assessment that the approved Stipulation, which includes a total incremental non-gas revenue requirement increase only slightly higher than that recommended by Staff at $2,752,274,[15] "is fair, reasonable, in the public interest, and is supported by the evidence in the record."[16]

The Commission further directs Atmos to issue refunds with interest to the extent interim rates were higher than the rates fixed herein.

Accordingly, IT IS ORDERED THAT:

(1) The Commission adopts the Senior Hearing Examiner's findings and recommendations.

(2) The Senior Hearing Examiner's recommendations, set forth herein, are hereby ordered.

(3) The rates and charges approved herein are fixed and substituted for the rates and terms and conditions of service that the Company placed into effect on an interim basis for service rendered on and after December 1, 2023, with the exception of Miscellaneous Service Charges, which are to be effective consistent with the terms of the Stipulation. Atmos shall forthwith file revised tariff sheets incorporating the finding herein on rates and charges and terms and conditions of service with the Clerk of the Commission and the Commission's Division of

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[13] Ex. 13 (Stipulation) at Attachment E. This is based on average usage of 52 CCFs per month.

[14] *Application of Atmos Energy Corporation, For a general increase in rates*, Case No. PUR-2018-00014, Doc. Con. Cen. No. 198320126, Final Order (March 11, 2019).

[15] *Id.* at 14.

[16] Report at 24.

Public Utility Regulation. The Clerk of the Commission shall retain such filing for public inspection in person and on the Commission's website: scc.virginia.gov/pages/Case-Information. Refunds of interim rates shall be made as required below.

(4) The Company shall recalculate, using the rates and charges approved herein, each bill it rendered that used, in whole or in part, the rates and charges that took effect on an interim basis and subject to refund on and after December 1, 2023, and where application of the new rates results in a reduced bill, refund the difference with interest as set out below within ninety (90) days of the issuance of this Final Order.

(5) Interest upon the ordered refunds shall be computed from the date payments of monthly bills were due to the date each refund is made at the average prime rate for each calendar quarter, compounded quarterly, using the average prime rate values published in the Federal Reserve Bulletin or in the Federal Reserve's Selected Interest Rates (Statistical Release H. 15) for the three (3) months of the preceding calendar quarter.

(6) The refunds ordered herein may be credited to the current customers' accounts. Refunds to former customers shall be made by check mailed to the last known address of such customers when the refund amount is $1 or more. The Company may offset the credit or refund to the extent of any undisputed outstanding balance for the current or former customer. No offset shall be permitted against any disputed portion of an outstanding balance. The Company may retain refunds to former customers when such refund is less than $1; however, such refunds shall be promptly made upon request. All unclaimed refunds shall be subject to Code § 55-210.6:2.

(7) Within sixty (60) days of completing the refunds ordered herein, the Company shall deliver to the Commission's Divisions of Public Utility Regulation and Utility Accounting and

Finance a report showing that all refunds have been made pursuant to this Final Order and detailing the costs incurred in effecting such refunds and the accounts charged.

(8) The Company shall bear all costs incurred in effecting the refunds ordered herein.

(9) This matter is dismissed.

A COPY hereof shall be sent electronically by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the Commission.