COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY CORPORATION FOR AN ADJUSTMENT OF RATES AND TARIFF MODIFICATIONS	)))	CASE NO. 2015-00343

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION TO ATMOS ENERGY CORPORATION

Atmos Energy Corporation ("Atmos-Ky"), pursuant to 807 KAR 5:001, is to file with the Commission the original and three copies in paper medium and an electronic version of the following information. The information requested herein is due on or before April 1, 2016. Responses to requests for information in paper medium shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Atmos-Ky shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Atmos-Ky fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a document containing personal information, Atmos-Ky shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the document so that personal information cannot be read.

1. Refer to Atmos-Ky's responses to Staff's Second Request for Information ("Staff's Second Request"), Items 2 and 18.

a. Explain in detail whether Atmos-Ky has experienced significant imbalance problems on its system due to the actions of transportation customers, resulting in the proposed change in T-3 and T-4 cash-out percentages and the addition of Natural Gas Week indices for the cash-out pricing.

b. Provide the estimated average annual impact on the gas cost of sales customers resulting from the proposed changes.

c. Confirm that Atmos-Ky's current cash-out tiers, as shown on Attachment 1 to Item 2, generally correspond to the first three tiers and percentages of Texas Gas Transmission, LLC ("Texas Gas"), as shown in the Texas Gas tariff in the response to Item 18, Attachment 1.

d. The Direct Testimony of Mark A. Martin ("Martin Testimony") quoted in Item 2 states that Texas Gas and Tennessee Gas Pipeline Company, LLC

("Tennessee Gas") have the same proposed tiers. While the tiers are the same, the percentages applied to the index price are more stringent in the Tennessee Gas tariff in Item 18, Attachment 1, than those in the Texas Gas tariff. Explain why it is more reasonable to implement the more stringent Tennessee Gas percentages, as opposed to adding the additional tiers and continuing to implement the Texas Gas percentages, which would be more in line with Atmos-Ky's current tier structure and percentages.

e. Provide example calculations showing the impact on transportation customers similar to those provided in the response to Item 2 using the Percentages of Applicable Index Price shown in the Texas Gas tariff provided in the response to Item 18, as opposed to the proposed percentages.

2. Atmos-Ky's response to Staff's Second Request, Item 6, refers to a $259,111 retirement and a $259,726.65 transfer to a distribution account in January 2015. The response states, "The transactions caused the accumulated depreciation to have a negative balance. However, upon approval of the Kentucky Direct Depreciation Study labeled 'Exhibit DAW-2' in Mr. Watson's Direct Testimony, the Company will reallocate the accumulated depreciation and address any negative amounts." If the depreciation study is approved, explain how the $259,726.65 allocation will be determined, identify the allocated amounts and the 300-level accounts in which they will be recorded, and explain whether there will be an impact on depreciation rates.

3. Atmos-Ky's response to Staff's Second Request, Item 7, refers to the balance for Account 39705 being retired in May 2014 when it was not fully depreciated, and which created a negative accumulated depreciation amount. The response states:

"However, upon approval of the Kentucky Direct Depreciation Study labeled 'Exhibit DAW-2' in Mr. Watson's Direct Testimony, the Company will reallocate the accumulated depreciation and address any negative amounts." If the depreciation study is approved, explain how the negative accumulated depreciation allocation will be determined, identify the amounts and the 300-level accounts in which they will be recorded, and explain whether there will be an impact on depreciation rates.

4. Atmos-Ky's response to Staff's Second Request, Item 8, refers to December 2011 and April 2012 retirements of $11,941,490 and $12,143,843, respectively. The assets were not fully depreciated which caused accumulated depreciation to have a negative balance. The response states, "In January 2016, the Company addressed this issue by reallocating the accumulated reserve amongst 300-level plant accounts in Shared Services. There is no net impact related to this adjustment in Account 108." Explain how Atmos-Ky addressed the reallocation of the accumulated depreciation in January 2016, identify the amounts and the 300-level accounts in which they were recorded, and explain whether there will be an impact to depreciation rates.

5. Refer to Atmos-Ky's response to Staff's Second Request, Item 9.b. The first paragraph states:

> Stores Overhead costs are capitalized and debited to Account 1630 at a specified rate as determined from the Business Unit Finance team and Dallas Shared Services Procurement team. Once that rate is determined, positive expenditures that are incurred on a capital project generate a debit amount to the capital project (account 1070) in the rate division that the project is established (typically the state level, or rate division 009 in the case of Kentucky) and the offsetting credit is to account 1630, also in the rate division that the project is established.

a. Identify and describe the Stores Overhead costs, direct or indirect, that are capitalized and debited to account 1630, Stores Expense Undistributed.

b. Explain how the specified rate is determined.

c. Explain whether it is common for account 1630's balance to be negative, and whether Stores Overhead costs allocated can be greater than incurred.

d. Explain whether Stores Overhead costs can be charged to an operation and maintenance account.

e. Describe the Stores Overhead transaction when material and supplies are returned to the storeroom or inventory control center.

6. Refer to Atmos-Ky's response to Staff's Second Request, Item 9.b. The second paragraph states:

> Shared Services also incurs inventory costs and debits account 1630 (credit cash). That amount is then distributed to account 1630 in the business unit (such as the Kentucky/Mid-States Division) in the division's general office (rate division 091). It is not specific to the rate division or state. Thus, for Stores Overhead costs originating in Shared Services, the debit is recorded in the General Office (Division 091) while the offsetting credit (negative) balance is in Division 009 (KY).

a. Identify and describe the types of inventory costs, direct or indirect, charged to account 1630.

b. If it is not specific to the operating division or state, explain how the inventory costs are distributed to the business unit and the division's general office.

c. Explain whether a business unit incurs inventory costs specific to its own operation.

d. Explain whether Atmos-Ky has its own stores facility or if there is a central stores facility where all materials and supplies are distributed.

7. Atmos-Ky's response to Staff's Second Request, Item 10.a., states:

> Shared Services capitalized overhead is recorded to account 9200-04863 as a credit and account 1070 (CWIP) as a debit. This credit to account 9200-04863, which is for all Shared Services capitalized overhead, results in account 9200 showing negative balances. The remaining charges recorded to account 9200 are primarily for administrative salaries and wages for employees working in the Shared Services general office (Div 002).

a. Identify and describe the types of Shared Services costs, direct or indirect, that are considered capitalized overheads in account 9200-04863.

b. Explain whether a rate is developed for allocating costs, and if so, whether the rate is applied by business unit, division, or a common corporate rate, and is the rate applicable to the specific operation of the business unit or division.

c. Explain whether it is common for the balance in account 9200 to be negative and whether a greater amount of Shared Services capitalized costs can be allocated than incurred.

8. Refer to Atmos-Ky's response to Staff's Second Request, Item 19.c.

a. Confirm, consistent with Atmos-Ky's application, paragraph 2, that Georgia is no longer a state in which Atmos Energy Corporation ("Atmos") has an operating division or operates a distribution system.

b. Provide copies of the Tennessee and Virginia statutes which permit rate stabilization in those states and the orders issued by the Louisiana and Mississippi commissions which approved rate stabilization plans/mechanisms for the Atmos division operating in those jurisdictions.

9. Refer to Atmos-Ky's response to Staff's Second Request, Item 20.b., and the Martin Testimony, page 20, lines 16–18, and page 21, line 18. Expected annualized cost savings of $197,160 from the wireless meter reading ("WMR") project shown in the response is based on installing 16,000 WMR devices. Page 20 of the Martin Testimony refers to the WMR project as discussed by witness Ernest Napier in Atmos-Ky's last rate case, Case No. 2013-00148,[1] which "involved the installation of 20,000 endpoints in certain Company locations within Kentucky." The Martin Testimony, page 21, indicates that "[a]ll planned WMR devices were installed prior to January 2015."

a. Explain why only 16,000 WMR devices have been installed given the planned installation of 20,000 endpoints, as discussed in Case No. 2013-00148.

b. Confirm whether the WMR devices now installed represent the total number of such devices Atmos-Ky plans to install.

c. Clarify whether any savings beyond the $197,160 identified in the response to Item 20.b. are anticipated.

10. Refer to Atmos-Ky's response to Staff's Second Request, Item 21, Attachment 1, Schedules A.1 and C.1, respectively, pages 4 and 58 of 123.

a. Confirm that recognizing the impact of bonus depreciation results in Atmos-Ky's rate request being reduced by $94,082, from $3,307,688 to $3,213,606.

b. Confirm that the reduction, from $3,307,688 to $3,213,606, in the requested rate increase is solely due to the recognition of bonus depreciation.

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

11. Refer to Atmos-Ky's responses to Staff's Second Request, Item 22, Attachment 1. Explain why actual capital expenditures have been \$3.5 million, or 14.1 percent, less than budgeted amounts through the first five months of fiscal year 2016.

12. Refer to Atmos-Ky's responses to Staff's Second Request, Items 23.b. and 52, Attachment 1.

a. The response to Item 23.b. describing the 10 percent add-on to the budgeted amounts for capital investment in test-period months in fiscal year 2016 being applied to derive capital investment amounts for corresponding months that are beyond the end of fiscal year 2016 as being "consistent with the Company's five-year financial plan. . . " mirrors the Direct Testimony of Gregory K. Waller ("Waller Testimony"), page 7, lines 21–23, and page 9, lines 20–21. A repeat of the testimony is not responsive to the request. As originally requested, explain why the Commission should rely upon this 10 percent add-on for capital investment in the last eight months of the test period.

b. Item 52, Attachment 1, shows significant growth in annual capital expenditures in Atmos-Ky's pipe replacement program ("PRP") since its implementation. However, it also shows that non-PRP capital expenditures: (1) averaged \$19.44 million for the last 10 fiscal years; (2) fell outside a range of \$16.4–\$21.5 million in only one of those years; (3) were less than the 10-year average in three of the five most recent fiscal years and; (4) experienced an average annual growth rate of less than two percent over the last 10 fiscal years. Explain how this history of non-PRP capital expenditures supports a 10 percent increase in such expenditures going forward.

13. Refer to Atmos-Ky's response to Staff's Second Request, Item 24.

a. Regarding rate-case expense for Case No. 2013-00148, part a. of the response states that "[b]ecause the Order in that case was silent on the issue, the Company did not have the documentation required to defer the expense and establish a regulatory asset as proposed." The rate-case expense in Case No. 2013-00148 was addressed in the Direct Testimony of Joshua C. Densman, page 18, lines 19–21, as one of five ratemaking adjustments Atmos-Ky proposed. Identify the location in the record of that case which shows that Atmos-Ky sought to establish a regulatory asset.

b. None of the ratemaking adjustments proposed by Atmos-Ky was discussed in the final Order in Case No. 2013-00148, which is typical practice for adjustments to which no intervenor objects and that are acceptable to the Commission. If the Order's silence on the issue of rate-case expense was cause for concern by Atmos-Ky, explain why it made no request for reconsideration or clarification of the Order.

c. Part b. of the response explains the expectation for more frequent rate filings in the future as support for the two-year amortization of rate-case expenses proposed by Atmos-Ky in this proceeding. Confirm that Atmos-Ky's application in this case was submitted approximately 2.5 years after it submitted its prior rate application in the proceeding that was docketed as Case No. 2013-00148.

14. Refer to Atmos-Ky's response to Staff's Second Request, Item 25.a. The last four sentences of the response read:

> In addition, the Company budgets a reduction to labor expense to account for unanticipated attrition and vacancy. In 2016, that amount for the Kentucky Mid-States Division was ($237,526). While this amount reduces budgeted (and therefore test period) labor expense, it does not have a reduction in headcount associated with it in the budget.

Please see the response to subpart (c) for a revised Schedule C.2 with corrected headcount data.

a. Clarify whether the reference to "2016" in the second sentence refers to calendar year 2016, fiscal year 2016, or something else.

b. Confirm that the budgeted reduction for the Kentucky Mid-States Division (which reduces test-period labor expense) is reflected in the labor cost included in both the original and revised Schedule C.2. If this cannot be confirmed, provide a new version of Schedule C.2 which reflects this reduction.

15. Refer to Atmos-Ky's response to Staff's Second Request, Item 26, the Waller Testimony, pages 28–29, and Atmos-Ky's application, FR 16(8)(d), Schedule D.2.2.

a. For calendar years 2012, 2013, and 2014, base period and test period, provide the total amounts of "General Office O&M" and "Shared Services O&M" and the amounts that were, or are projected to be, allocated to Atmos-Ky.

b. For each instance in which total "General Office O&M" increases by more than five percent from one time period to the next, identify and describe the major factors responsible for the increase.

c. For each instance in which total "Shared Services O&M" increases by more than five percent from one time period to the next, identify and describe the major factors responsible for the increase.

d. Explain whether any change in how these amounts are allocated to Atmos-Ky is reflected in either the base period or test period.

16. Refer to Atmos-Ky's response to Staff's Second Request, Item 27. Confirm that Exhibit GLS-4(B) provided in Attachment 2 to this response should reference the 20 years ending 8/31/2015, with a "BASE NOAA" period of 1995–2015.

17. Refer to Atmos-Ky's responses to Staff's Second Request, Item 28, Attachment 1, and Staff's First Request for Information ("Staff First Request"), Item 27, both the original and supplemental Attachment 1.

a. The adjustment for the customers in the City of Livermore is 350. However, the differences in residential customers for calendar years 2012, 2013, and 2014 in the original and supplemental attachments to Staff First Request, Item 27, are 2,250, 1,310, and 2,637, respectively. Explain the derivation of the historical customer numbers in the original attachment and the extent to which they vary from the numbers in the supplemental attachment.

b. Given that the historical customer numbers being compared reflect annual averages, explain whether advantages or disadvantages result from using fiscal year numbers versus calendar year numbers, or vice versa.

c. (1) The average residential customer growth used by Atmos-Ky is 400 although the response to Staff's Second Request, Item 28, Attachment 1, reflects a three-year average growth of 426. Explain why this amount was reduced to 400.

(2) Staff's Second Request, Item 28, Attachment 1, shows average residential customers of 155,559 in fiscal year 2015. While only five months separate the end of fiscal year 2015 from the end of the base period, explain why average residential customers in the base period are 155,670, which is only 111 (only

slightly more than one-fourth of 400) greater than the fiscal year 2015 average of 155,559.

18. Refer to Atmos-Ky's response to Staff's Second Request, Item 29, and the Direct Testimony of Gary L. Smith ("Smith Testimony"), page 15. Provide the calculation of estimated individual customer revenue for "Special Contract Reformations" which is referenced in the Smith Testimony on page 15, lines 2430, or indicate its location in the record.

19. Refer to Atmos-Ky's response to Staff's Second Request, Item 32, Attachment 1.

a. State whether the Atmos distribution system designated as "Environs" is in Texas, and if so, confirm that five of the 13 Atmos systems included in the comparison are in Texas.

b. Confirm that, for fiscal year 2015, Atmos-Ky has the highest contribution from base charges of all the Atmos systems not located in Texas and that, with the exception of Kansas, which is practically identical in its base charge contribution percentage, it also has the highest base charge contribution for fiscal year 2016.

20. Refer to Atmos-Ky's response to Staff's Second Request, Item 40.d., Attachment 1. Provide the dates of each Proxy Company's Return on Equity approval.

21. Refer to Atmos-Ky's response to Staff's Second Request, Item 44.b., which states:

> The zero-intercept study that formed the basis for Mr. Raab's class cost of service in Case No. 2013-00148 relied on a semi-logarithmic functional specification of the relationship between mains investments and demands. As Mr. Raab

> prepared his study for this case, he was concerned that this specification resulted in an overstatement of the importance of customers in explaining the relationship between mains investments and demands and reverted to a linear specification for the current study.

a. Explain the difference between the two methods and why a semi-logarithmic functional specification can result in an overstatement of the importance of customers in explaining the relationship between mains investments and demands.

b. In the cost-of-service studies filed by Atmos-Ky in base-rate proceedings prior to Case No. 2013-00148, state whether the zero-intercept studies used a semi-logarithmic functional specification or a linear specification.

22. Atmos-Ky's responses to Staff's Second Request, Items 51.a. and 51.b., refer to the Direct Testimony of Dane A. Watson ("Watson Testimony"), pages 9–10, and Exhibit DAW-2, pages 61–62. The Watson Testimony and exhibit refer to a Time and Motion Study performed by "the Company" for the Mains and Services accounts.

a. Clarify whether "the Company" refers to Atmos-Ky, the Kentucky/ Mid-States Division, a larger sub-group of Atmos corporation, or the corporation as a whole.

b. Provide a description, in lay-person's terms, of the Time and Motion Study referenced in the Watson Testimony and Exhibit DAW-2.

c. The Watson Testimony, page 9, lines 19–20, indicates that "[t]he results of this study were input as a pro forma to the net salvage analysis." For Account 367.01, Mains – Steel; Account 376.01, Mains – Steel; Account 376.02, Mains – Plastic; and Account 380.00, Services, provide the net salvage percentage had the study results not been input as a pro forma to the net salvage analysis.

d. Provide the results of the Time and Motion Study Mr. Watson used in performing the net salvage analysis.

23. Refer to Atmos-Ky's response to Staff's Second Request, Item 53, Attachment 1. Explain whether Atmos-Ky has determined if there is a reason, such as a weak local economy, for the magnitude of the increase in its uncollectible accounts expense.

24. Refer to Atmos-Ky's response to the Attorney General's Rate Intervention Office's Initial Request for Information, Item 36, Attachment 1, the Rates tab. This schedule groups the Commercial and Industrial Interruptible classes and the Transportation classes. Provide a revision of this schedule which provides the information for each individual rate class.

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DATED MAR 18 2016

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