COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ATMOS ENERGY CORPORATION FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2018-00281

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

Atmos Energy Corporation (Atmos), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before December 7, 2018. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked. 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 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 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 respond completely and precisely.

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 applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Atmos shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the application, paragraph 5, regarding Atmos's Kentucky customers. Provide the name of the counties in which Atmos operates, and the number of customers by rate class in each county as of June 2018.

2. Refer to the application, Filing Requirement (FR) 16(1)(b)4, Atmos's present and proposed tariffs. Confirm that the only proposed changes to Atmos's tariffs are the following: increases in monthly base charges and rates per Mcf for all classes, the removal of the Pipeline Replacement Program (PRP) rider and associated language, and a text change to the Demand-Side Management (DSM) Tariff.

3. Refer to the Direct Testimony of Mark A. Martin (Martin Testimony), page 5, lines 14–15. Mr. Martin states that Atmos has one of the lowest pass-through gas costs in Kentucky. Provide a comparison of Atmos's pass-through gas costs to the other natural gas utilities in Kentucky.

4. Refer to the Martin Testimony, page 6, line 9.

a. Provide the annual growth rate for the years 2010–2018 to date.

b. Provide the average annual number of residential customers relied upon for forecasting customer growth.

5. Refer to the Martin Testimony, page 6, lines 17–22 and page 7, lines 1–2. Mr. Martin asserts that "[f]or the past eight years the Company has filed annual PRP filings to recover investments in infrastructure replacement and this has allowed the Company to extend the period between base rate cases." Atmos further contends that due to the changes the Commission made to the PRP in Case No. 2017-00349,[1] it will be forced to file annual rate cases.

a. Confirm that within the past approximate nine years, in addition to the PRP filings and the pending rate adjustment request in Case No. 2018-00281, Atmos also filed applications to adjust its rates in Case No. 2017-00349, Case No. 2015-00343,[2] Case No. 2013-00148,[3] and Case No. 2009-00354.[4]

b. Explain in detail why Atmos contends that it cannot comply with the changes that the Commission made to the PRP in the final Order in Case No. 2017-00349.

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

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

[3] Case No. 2013-00148, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications*, (Ky. PSC Apr. 22, 2016).

[4] Case No. 2009-00354, *Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 28, 2010).

c. Confirm that Atmos is not the only Commission regulated natural gas utility that utilizes a historical test year for PRP filings.

6. Refer to the Martin Testimony, page 6, lines 19–22. Mr. Martin states that Atmos intends to file annual rate cases; however, Mr. Martin also speaks to the efficiencies and low costs that benefit Atmos's customers on pages 5, 7, and 9 of his testimony. Explain how annual rate cases, that Atmos's customers pay for, will allow Atmos to focus on efficiency, productivity, and low customer costs.

7. Refer to the Martin Testimony, page 7, lines 12–21, and page 8, lines 1–2. Atmos states that its current calculated rate of return on rate base for the test year is 5.58 percent, and the decline in the return is primarily due to capital investment that is not recovered through Atmos's current rates and to increased costs of doing business.

a. Provide detailed descriptions of the capital investments that are not recovered through Atmos's current rates.

b. Provide a list with detailed descriptions of all the increased costs of doing business.

8. Refer to the Martin Testimony, page 8, lines 18–23, and page 9, lines 1–4. Provide a detailed explanation for each of the listed technology and process improvements.

9. Refer to the Martin Testimony, page 9, line 7. Mr. Martin notes that on average residential bills have remained steady since 2007.

a. Confirm that this assertion includes the cost of gas.

b. Confirm that the cost of gas has declined since 2007.

c. Provide the average residential bill by year for the years 2007–2018 to date.

d. Provide a comparison of Atmos's average customer bill for 2007–2017, and for the most recent 12-month period, broken down by rate class and rate components (i.e., monthly base charges, Mcf rates, gas cost rates for sales customers, PRP charges, DSM charges, etc.).

10. Refer to the Martin Testimony, page 9, lines 13–14. Provide a comparison of Atmos's current and proposed average residential customer bill with the average residential customer bill of the other regulated natural gas utilities in Kentucky.

11. Refer to the Martin Testimony, page 12, lines 15–17.

a. Explain the purpose of the change to the DSM and why it is being proposed.

b. Provide an update to the notice of termination of the DSM programs as addressed in the May 21, 2018 Order in Case No. 2017-00424.[5]

12. Refer to the Martin Testimony, page 14, lines 3–15. Provide any new evidence that would support Atmos's proposed annual formula rate mechanism that the Commission denied in Case No. 2017-00349.[6]

13. Refer to the Direct Testimony of Gregory K. Waller (Waller Testimony), page 7, regarding the forecasted test-year gross plant.

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[5] Case No. 2017-00424 *Application of Atmos Energy Corporation to Extend Its Demand-Side Management Program, as Amended, and Cost Recovery Mechanism, as Amended for Three (3) Years*, (KY. PSC Apr. 27, 2018).

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

a. Explain how the Commission's decision in Case No. 2017-00349[7] impacted Atmos's 2018 capital investment projections.

b. For the three most recent historical fiscal years, 2016, 2017, and 2018, provide side-by-side monthly comparisons of budgeted additions to gross plant and actual additions to gross plant broken down by PRP and other capital additions.

c. As they become available, provide a side-by-side monthly comparison of budgeted and actual additions to gross plant by PRP and other capital additions for fiscal year 2019. Consider this a continuing request to be updated monthly.

d. The forecasted test year in Atmos's most recent rate case, Case No. 2017-00349, was the twelve months ended March 31, 2019. The 13-month average of total utility plant included in the net investment rate base proposed by Atmos in that proceeding was $493,095,000. Provide the 13-month average of Atmos's actual total utility plant for that period. Include the actual monthly amounts and the calculation of the 13-month average balance in the response as the information becomes available, broken down by PRP and other capital additions. Consider this a continuing request to be updated monthly.

14. Refer to the Waller Testimony, beginning at page 8, concerning the development of the test-year capital investment projection of $87.76 million.

a. Confirm that the test-year capital investment projection of $87.76 million is correct.

b. Provide a breakdown of the capital investment projection for the PRP roll-in and other capital investments.

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[7] *Id.*

15. Refer to the Waller Testimony, page 13, regarding the amount of test-period construction work in progress (CWIP). For the five most recent fiscal years, 2014–2018, provide the beginning monthly balance of CWIP, the monthly additions, the capital projects that were closed to gross plant, and the ending monthly balance.

16. Refer to the Waller Testimony, page 15, regarding the removal of accumulated deferred income tax (ADIT) items corresponding to Director's stock expense and prepayments. Confirm that the proposed adjustment includes all incentive compensation related to ADIT items from operations and maintenance expense (O&M) and rate base that were disallowed in Case No. 2017-00349.[8]

17. Refer to the Waller Testimony at page 16, line 5 and FR 16(6)(f), Attachment 1, line 25. Provide in Excel spreadsheet format the calculation and supporting workpapers for Atmos's total test-year end capitalization of $506,501,955.

18. Refer to the Waller Testimony, beginning at page 16, regarding the O&M budgeting process and Filing Requirement 16(7)(d), Attachment 2, line 51, Provision for Bad Debt and line 52, Miscellaneous Expense, filed in response to the Commission's deficiency finding. Provide the basis and a detailed explanation for the credit balances in these accounts.

19. Refer to the Waller Testimony, page 21, regarding O&M variances and the Financial Package that is completed quarterly as an official Sarbanes-Oxley control document. Provide the Financial Package for each quarter for the three most recent fiscal years, 2016–2018.

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[8] *Id.*

20. Refer to the Waller Testimony, page 22, lines 4–7, regarding budgeted versus actual O&M in the provided table. Explain the reason(s) for the dollar variances in 2013, 2015, and 2016.

21. Refer to the Waller Testimony, beginning at page 26, regarding O&M expenses related to labor and benefits expenses. Also, refer to Atmos's response to Commission Staff's First Request (Staff's First Request), Item 65.

a. Provide by single, family, and each other type of coverage category, the total dollar amount of jurisdictional employee medical insurance premiums and percentage of total premiums paid by employees and Atmos.

b. Provide the monthly employee responsibility premium and company responsibility premium amounts by single, family, and each other type of coverage category by jurisdictional employee medical insurance coverages. For example, if the total monthly cost of coverage for a family is $1000, what is the employee's share and what is the company's share by dollar and by percentage.

c. Provide the jurisdictional employee medical insurance adjustment assuming the following: Total Healthcare/Medical Cost for Each Level of Coverage = Company Paid Portion of Premium + Employee Contribution to Premium. Continue to assume that the employee would pay 21 percent of the total cost for single coverage and 33 percent of the total cost for all other types of coverage, compared to the amount of healthcare/medical insurance expense incurred during the test year.

d. Provide by single, family, and each other type of coverage category, the total dollar amount of jurisdictional employee dental insurance premiums and percentage of total premiums paid by employees and Atmos.

e. Provide the jurisdictional dental insurance adjustment in the test year assuming employees would pay 60 percent of the total cost of coverage. Calculate the amount as follows: Total Dental Cost for Each Level of Coverage = Company Paid Portion of Premium + Employee Contribution to Premium.

f. Provide a schedule that identifies the jurisdictional cost for providing long-term disability insurance.

g. Provide a schedule that identifies the cost for providing group life insurance coverage for coverage over $50,000.

h. For employees that participate in a defined-benefit plan, provide the total and jurisdictional amount of matching contributions made on behalf of employees who also participate in any 401(k) retirement savings account.

i. Provide the information requested in items a.–h. that are passed through to Kentucky by the Division's General Services, Shared Services, and other affiliated companies.

j. Provide the two most recent pension and Other Postemployment Benefits (OPEB) actuarial reports for Atmos.

22. Refer to the Waller Testimony, at page 27, line 18 through page 28, line 2. For months of the forecasted test period that extend beyond Atmos's budgets, state the fiscal year from which budgeted figures are used to forecast the unbudgeted months.

23. Refer to the Waller Testimony, beginning at page 28, regarding the amount of the Division's General Office and Shared Services allocated to Kentucky.

a. Further explain why the O&M allocation from the Division's General Office increased by $607,029, or more than 12 percent, from the base period to the test period

b. Provide a breakdown by account for fiscal years 2015, 2016, 2017, the base period, the forecasted test period, and the two fiscal years after the test year for the Division's General Office and Shared Services allocated to Kentucky.

c. Reflected in the test-year level of expenses proposed by Atmos, provide the following as it relates to salaries either directly assigned or allocated to Kentucky by the Division's General Office, Shared Services, or other affiliated company.

(1) By the Division's General Office, Shared Services, or other affiliated company department, the total salary amount along with the number of hours associated with the salary cost.

(2) By any other Atmos affiliate, provide the name of the subsidiary and the department along with the total salary and the number of hours associated with the salary.

d. State whether any of the salary or wage increases in the test year for the Division's General Office, Shared Services, or other affiliated company are greater than three percent. If so, provide the adjustment necessary to limit the salary and wage increase to three percent.

e. Provide the number of Division's General Office and Shared Services employees from September 2013 through September 2018.

24. Refer to the Waller Testimony at page 28, lines 3–9. Provide the actual bad debt dollar amount for the last five fiscal years and the most recent 12-month period and also shown as a percentage of margins and a percentage of total receipts.

25. Refer to the Waller Testimony, page 34, regarding taxes other than income taxes for the base and test periods.

a. Explain the basis for the 16 percent increase in this category of expense.

b. Provide a breakdown by account for fiscal years 2015, 2016, 2017, and the two fiscal years after the test year for taxes other than income taxes in Excel spreadsheet format with all formulas intact.

c. Refer to the Waller Testimony, page 27, in which it states that "[o]verall, direct labor expense is projected to decrease $179,909 from the base period to the test period." Explain the increase in payroll taxes from the base period to the test period when direct labor expense decreased in the same time frame.

d. Provide the two most recent years of the Public Service Company Assessment as determined by the Kentucky Department of Revenue.

26. Refer to the Direct Testimony of Josh C. Densman (Densman Testimony), page 5, regarding the process to develop the base period and forecasted test period revenues. Explain why the annual budget process is not developed at the level necessary for determining rate design billing determinants.

27. Refer to the Densman Testimony, page 6, regarding the steps taken to forecast the future test year from the baseline reference period.

a. Identify and explain the impacts of any known and measurable changes to service contracts since the application was filed in Case No. 2017-00349.[9]

b. Identify and quantify the load changes due to new or proposed industries and industry closings since the application was filed in Case No. 2017-00349.[10]

c. Identify and explain any developments since the application was filed in the current case that would impact service revenues due to existing or new service contracts or new industries or industry closings.

28. Refer to the Densman Testimony, pages 7 and 8.

a. Explain why Atmos proposed to continue the use of a 20-year period for the basis for normal weather.

b. State whether Atmos considered any periods other than the 20-year period.

c. Identify and explain any changes in weather normalization methodologies from Case No. 2017-00349[11] to the current case.

29. Refer to the Densman Testimony, page 9, regarding the net average annual customer growth. Also refer to the Martin Testimony in Case No. 2017-00349,[12] page 15, lines 4–8, in which the residential customer was forecasted to increase by 300 customers per year.

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[9] *Id.*

[10] *Id.*

[11] *Id.*

[12] *Id.*

a. Provide a comparison of the customer growth for each rate class by year from the numbers contained in the application for Case No. 2017-00349[13] to present.

b. Explain any factors that influenced the projected versus actual changes in customers by rate class since the application was filed in Case No. 2017-00349.[14]

c. Provide a trend line for the past 15 fiscal years showing average annual usage per customer for the residential, commercial, and public authority classes. If possible, the information should be adjusted for normal weather.

30. Refer to the Densman Testimony, page 10, lines 3–4 regarding the transaction-based service charges. Provide the transaction-based service charges for the last three fiscal years.

31. Refer to the Densman Testimony, page 10, lines 8–10, regarding late-payment fees.

a. Provide the calculation used to develop the estimate of 0.90 percent and state the period over which it was calculated.

b. Provide the ratio of late-payment fees for the last three fiscal years for the residential class. Include all support calculations.

c. Provide the ratio of late-payment fees for the last three fiscal years for the commercial class. Include all support calculations.

d. Provide the ratio of late-payment fees for the last three fiscal years for the public authority class. Include all support calculations.

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[13] *Id.*

[14] *Id.*

32. Refer to the Densman Testimony, Exhibit JCD-3.

a. Provide support for the Mcf adjustments made to the interruptible industrial (G-2) rate class.

b. Provide support for the Mcf adjustments made to the Transportation (T-4) rate class.

c. Provide support for the Mcf adjustments made to the Transportation (T-3) rate class.

d. Provide support for the Mcf adjustments made to the Special Contracts.

33. Refer to the Direct Testimony of Joe T. Christian (Christian Testimony), page 6, lines 21–23 and continued on page 7, lines 1–6. Also refer to FR 16(8)(j).

a. Mr. Christian states that the capital structure on FR 16(8)(j) is Atmos's period end actual capital structure as of June 30, 2018. The dates listed on FR 16(8)(j) do not refer to June 30, 2018. Reconcile this discrepancy.

b. Explain why Atmos proposes to use the capital structure as of June 30, 2018, for the forecasted test period as opposed to the 13-month average.

c. Mr. Christian references FR 16(8)(j), column (G) stating that for the proposed capital structure, short-term debt comprises 3.44 percent, long-term debt comprises 38.39 percent, and equity is 58.17 percent.

(1) Column (G) on Schedule J-1 of FR 16(8)(j) states that long-term debt comprises 38.31 percent of the total. Reconcile this difference.

(2) Column (G) on Schedule J-1 of FR 16(8)(j) states that equity is 58.24 percent of the total. Reconcile this difference.

34. Refer to the Christian Testimony, page 7, lines 13–18.

a. Provide a detailed list and cost support for all of the costs associated with the incremental long-term debt hedge instruments.

b. Refer to FR 16(8)(j), Schedule J-3. Provide support for the 5.07 percent interest rate for the refinance of the 8.5 percent Sr. Note due March 15, 2019.

(1) Explain why the refinance of the 8.5 percent Sr. Note due March 15, 2019, is included in the base period.

c. Confirm that Atmos will be filing a financing application for the anticipated financing. If confirmed, provide the anticipated filing date.

35. Refer to the Christian Testimony, page 7, lines 21–22. Provide support for the proposed 2.4 percent weighted average cost of short-term debt.

36. Refer to the Christian Testimony, beginning at page 12, regarding cash-working capital and the lead-lag analysis.

a. Provide a summary of the results of the lead-lag analysis verses the 1/8 formula for computing cash working capital for the test period.

b. Refer to page 13. Provide the results of the lead-lag studies in Tennessee, Colorado, and Virginia in terms of using the results of the lead-lag analysis or a formula approach.

c. Refer to page 20. State whether any of the states listed on page 12 exclude depreciation from the cash working capital computation.

d. State whether any of the states have statutory or regulatory provisions regarding the computation of cash working capital. If so, provide the relevant provisions.

37. Refer to the Direct Testimony of Jennifer K. Story at page 10, lines 8–12. Provide a comparison of the excess deferred income taxes estimated in Case No. 2017-00349[15] and the present case.

38. Refer to the Direct Testimony of Dane A. Watson (Watson Testimony), page 4, regarding the data utilized in the depreciation study. Discuss the impact(s) of the PRP capital spending on the results of the depreciation study.

39. Refer to the Watson Testimony, page 8, regarding the use of the Equal Life Group (ELG) procedure in the depreciation study.

a. Identify the cases in which the Commission has approved the use of the ELG rates for Atmos.

b. Confirm that Atmos is aware the Commission did not approve the use of the ELG rates in Case No. 2017-00321.[16]

40. Refer to the Watson Testimony at page 12, lines 10–14. State when the Time and Motion Studies results will be fully incorporated into the depreciation study results.

41. Refer to the Watson Testimony at page 17, line 4. State how often Atmos reviews its annual depreciation rates.

42. Refer to the Direct Testimony of Laura K. Gillham, page 11, line 11.

a. Identify and explain the five control deficiencies that were identified in the most recently completed fiscal year.

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[15] *Id.*

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

b. Identify the deficiencies that impacted Atmos's Kentucky operations.

43. Refer to the Direct Testimony of James H. Vander Weide, Ph.D. (Vander Weide Testimony), page 4, lines 14–18.

a. Explain why Atmos's financial risk is measured by the ratio of book values of equity and debt while the proxy companies' financial risk is based on the market value of equity and debt.

b. Provide a comparison of the financial leverage of Atmos and the proxy natural gas utilities.

44. Refer to the Vander Weide Testimony, page 12, lines 17–20. Explain if rate mechanisms such as weather normalization adjustments or pipeline replacement riders mitigate risk associated with demand uncertainty for a natural gas utility.

45. Refer to the Vander Weide Testimony, page 13, lines 11–14. Confirm that purchased gas costs are collected from the customers through the gas cost adjustment. If confirmed, explain how purchased gas costs add to operating expense uncertainty.

46. Refer to the Vander Weide Testimony, page 15, lines 5–8. Provide the operating leverage for Atmos and the proxy companies.

47. Refer to the Vander Weide Testimony, page 20, lines 18–22. Provide the results of the annual Discounted Cash Flow (DCF) model in a table like Exhibit JVW-1, Schedule 1 in an Excel spreadsheet with all rows and columns unhidden and all formulas accessible.

48. Refer to the Vander Weide Testimony, page 22, lines 3–4.

a. State why information from Value Line Investment Survey (Value Line) was not used in estimating future earnings growth for the comparable group of natural gas utilities in Exhibit JVW-1, Schedule 1.

b. Provide the most current Value Line projections of earnings growth for the proxy group.

c. Provide the results of the DCF model using Value Line future growth earnings in a table like Exhibit JVW-1, Schedule 1 in an Excel spreadsheet with all rows and columns unhidden and all formulas accessible.

49. Refer to the Vander Weide Testimony, page 28, lines 5–2.

a. State whether Chesapeake Utilities (Chesapeake) should be eliminated from the proxy group based on the October 30, 2018 announcement of Chesapeake's acquisition of WildHorse Resource Development Corp.

b. If Atmos agrees that Chesapeake should be eliminated, provide updates to the DCF model.

50. Refer to the Vander Weide Testimony, page 32, lines 7–18.

a. Provide an update to the expected yield on A-rated utility bonds using Value Line data.

b. Provide the current interest rate for A utility rated bonds.

c. Provide support for including the U.S. Energy Information Administration (EIA) forecasts.

51. Refer to the Vander Weide Testimony, page 32, lines 22–23, and continuing to page 33, lines 1–6. Mr. Vander Weide supports the use of forecasted interest rates stating that the fair rate of return standard requires a company to have an opportunity to

earn its required return during the forward-looking period during which rates will be in effect. On page 6 of the Martin Testimony, Mr. Martin states that Atmos plans to seek annual rate cases.

a. Explain how long-term forecasts support the equity models when the models and the approved return on equity (ROE) will be updated annually.

b. Explain why current interest rates, which are often believed to be the most accurate in the short-term, should not be used given the fact that annual rate cases will be filed.

52. Refer to the Vander Weide Testimony, page 34, lines 14–17. Provide support for Dr. Vander Weide's belief that natural gas utilities face risks that are somewhere between the average risk of the S&P Utilities and S&P 500.

53. Refer to the Vander Weide Testimony, page 37, lines 9–11. Provide support for using a historical based beta over the current.

54. Refer to the Vander Weide Testimony, page 46, Table 2.

a. Provide the model results without any flotation adjustments.

b. Provide the model results without any flotation and size premium adjustments.

c. Provide all supporting workpapers in Excel spreadsheet format with all rows and columns accessible and formulas unhidden.

55. Refer to the Vander Weide Testimony, Exhibit JVW-1, Schedule 1. For all companies in the proxy group of gas utilities, provide the following:

a. The most current earned ROE for the gas utility or its subsidiary.

b. The most current awarded ROE for each gas utility or its subsidiary and the date of the award.

56. Refer to the Vander Weide Testimony, Exhibit JVW-1, Schedule 6.

a. Provide a revised Schedule 6 in the same format with and without flotation costs.

b. Provide a revised Schedule 6 in the same format, using the current published 20-year Treasury Bond as the risk-free rate, with and without flotation costs.

57. Refer to the Vander Weide Testimony, Exhibit JVW-1, Schedule 9.

a. Refer to page 1. Provide a revised table without flotation costs.

b. Refer to page 1. Provide a revised table, using the current published 20-year Treasury Bond as the risk-free rate without flotation costs.

c. Refer to page 3. Explain what is meant by market-weighted average.

58. Refer to the application generally, and provide the current published yield for a 20-year Treasury Bond.

59. Refer to the application generally, and provide the most current earned ROE and the most recently awarded ROE with the date of the award for all of Atmos's distribution utilities.

60. Refer to the Direct Testimony of Paul H. Raab (Raab Testimony).

a. Explain any differences in the methodology between the cost-of-service studies (COSS) filed in this case as compared to the COSSs filed in Case No. 2017-00349.[17]

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

b. Refer to Exhibit PHR-5. Provide a similar exhibit comparing the results of the three cost-of-service studies performed in Case No. 2017-00349.[18]

61. Refer to the Raab Testimony, page 14. For its customer/demand COSS, Atmos classified distribution mains and related facilities approximately 33 percent to customer and 67 percent to demand using the results of a minimum system study.

a. Provide a copy of the minimum system study.

b. Explain why the minimum system approach was used in lieu of the zero-intercept approach.

62. Refer to the Raab Testimony, Exhibit PHR-2, page 1, lines 54–57. Provide similar results at the proposed revenue allocation and proposed rate levels for the following:

a. Revenue deficiency.

b. Rate of return.

c. Relative rate of return.

d. Percent increase.

63. Refer to FR 16(1)(b)1, response 2. Describe the market changes referenced in this response.

64. Refer to the application, Schedules E and H-1. Confirm that the Kentucky income tax rate is 5 percent. If confirmed, provide revised schedules.

65. Refer to the application, Schedule E.

a. Provide Atmos's apportionment factor for Kentucky state income tax for fiscal years 2016–2018.

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[18] *Id.*

b. Describe any impact that the change to a single sales apportionment factor for Kentucky state income taxes will have on Atmos.

66. Refer to 2018_KY_Rev_Req_Model.xlsx produced in response to Staff's First Request at tabs B.5 B and B.5 F.

a. Explain in detail what the value for "Change In ADIT, excluding forecasted change in NOLC" in tab B.5 F at cell I72 reflects.

b. Explain all bases for calculating the "Required Change in NOLC" in tab B.5 F at cell I73 using projected tax expense from one period (i.e., the forecasted test period) and the change in ADIT from another period (i.e., the difference between the average ADIT in the base period from January 2018 through December 2018 and the average ADIT in forecasted test period from April 2019 through March 2019).

67. Refer to 2018_KY_Rev_Req_Model.xlsx produced in response to Staff's First Request at tabs WP B.5 B.

a. Describe how the actual amounts for December 2017–June 2018 were determined and calculated for each account.

b. Describe how the forecasted amounts for July 2018–December 2018 were projected and calculated for each account. If the pro rata method was used, describe how the pro rata calculation was applied (i.e., was the pro rata method applied to the sum of the monthly changes for all accounts, was it applied to the monthly changes for each account represented in the totals, was it applied to some accounts but not others, what ratios were used for each month).

c. Provide workpapers and Excel spreadsheets with all formulas intact demonstrating how the monthly amounts for each account in WP B.5 B were calculated.

d. Provide "ADIT for KY 6-30-18.xlsx" referred to as the "Data Source" in tab WP B.5 B.

68. Refer to 2018_KY_Rev_Req_Model.xlsx produced in response to Staff's First Request at tab WP B.5 F.

a. Describe how the starting values in Column D for March 2019 were projected and calculated for each account.

b. Describe how the amounts for April 2019–March 2020 were projected and calculated for each account.

c. If the pro rata method was used to calculate the amounts for April 2019–March 2020, provide the total monthly changes for each month and account used to calculate the pro rata changes, explain how those changes were calculated and projected, and describe how the pro rata calculation was applied (i.e., was the pro rata method applied to sum of the monthly changes for all accounts, was it applied to the monthly changes for each account represented in the totals, was it applied to some accounts but not others, what ratios were used for each month).

d. Provide workpapers and Excel spreadsheets with all formulas intact demonstrating how the monthly amounts for each account in WP B.5 F were calculated.

69. Refer to 2018_KY_Rev_Req_Model.xlsx produced in response to Staff's First Request at tabs WP B.5 B and WP B.5 F.

a. Explain what caused Account 190 for Division 02 to be reduced from $504,522,022 to $440,605,947 from February 2018–March 2018 as shown in tab WP B.5 B.

b. Explain what caused Account 190 for Division 02 to be reduced from $440,605,947 to $437,021,385 from May 2018–June 2018 as shown in tab WP B.5 B, and explain why that reduction was significantly smaller than the reduction between February 2018 and March 2018.

c. Provide the actual amounts of all accounts shown in tab WP B.5 B through October 2018.

d. Explain why there is no change in Account 190 for Division 02, Division 12, and Division 91 from July 2018–March 2020 as shown in tab WP B.5 B and WP B.5 F.

e. Explain why there is such a large discrepancy between the deferred tax assets reflected in Account 190 and Account 283 for Division 02, and the deferred tax liabilities reflected in Account 282 for Division 02.

f. Confirm that a deferred tax asset reflecting a net operating loss (NOL) carryforward arising from the accelerated depreciation of property should always have a corresponding deferred tax liability of at least the same value reflecting the deferred tax obligation.

70. Refer to the FERC Order issued on April 27, 2018, in the matter involving Midcontinent Independent System Operator, Inc.,[19] and others in which FERC determined that the "two-step averaging methodology" used to calculate ADIT in a future test period for ratemaking purposes resulted in unfair and unreasonable rates.

a. State whether Atmos used the "two-step averaging methodology" referred to by FERC or any similar method in which a second averaging step was applied

[19] *In Re Midcontinent Independent System Operator, Inc., et. al.*, 163 FERC P 61, 061, 2018 WL 2017529 (F.E.R.C. April 27, 2018).

to ADIT balances calculated using the pro rata method to calculate its ADIT balance or any portion thereof.

b. If Atmos does use a "two-step averaging methodology" to calculate its ADIT balance for the future test period, explain how Atmos applied the methodology and why Atmos contends that the methodology is reasonable.

71. State whether Atmos uses the "with or without" method for determining the extent to which net operating loss carryforwards (NOL carryforwards) should be attributed to the accelerated depreciation of utility property in a given tax year. If so, describe how Atmos applies the "with or without" method. If not, describe how Atmos determines the extent to which NOL carryforwards are attributable to accelerated tax depreciation of utility property in a given tax year.

72. State whether, and if so describe how, Atmos allocates NOL carryforwards generated in a particular tax year amongst specific utility properties that were depreciated in an accelerated manner for tax purposes during that year.

73. If NOL carryforwards are generated in a particular tax year by the accelerated depreciation of multiple public utility properties, describe how Atmos allocates the use of any portion of those NOL carryforwards to reduce tax expense in future years amongst those properties to determine the extent to which the remaining NOL carryforwards should be attributed to the accelerated depreciation of each such property.

74. Describe how Atmos allocates the use of NOL carryforwards amongst the NOL carryforwards generated in multiple previous years by the accelerated depreciation of utility property (i.e., if $500,000 in NOL carryforwards were generated in Year 1 and $500,000 were generated in Year 2, and Atmos used $400,000 in NOL carryforwards to

reduce tax expense in Year 3). State whether, and if so describe how, Atmos's allocation of the use of the NOL carryforwards would differ if the NOL carryforwards did not arise from the accelerated depreciation of public utility property.

75. Describe how Atmos treats ADIT and excess ADIT attributable to the accelerated tax depreciation of public utility property that is removed from service for ratemaking purposes, and explain the basis for that treatment. State whether Atmos treats deferred tax assets and deferred tax liabilities generated by accelerated tax depreciation of public utility property in the same manner for ratemaking purposes when the public utility property, the depreciation of which generated the assets and liabilities, is taken out of service. If not, explain why the deferred tax assets and deferred tax liabilities are treated differently.

76. When a third party/contractor damages Atmos's property, explain in detail whether Atmos charges the third party/contractor for 100 percent of the associated repair costs.

Gwen R. Pinson

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cc: Parties of Record

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