

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO THE ATTORNEY GENERAL

The Attorney General, by and through the Office of Rate Intervention (Attorney General), 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 February 27, 2019. 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.

The Attorney General 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 the Attorney General 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, the Attorney General 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 Direct Testimony of Lane Kollen (Kollen Testimony) at pages 7–14, in which he recommends that depreciation rates be reduced to reflect the use of the Average Life Group (ALG) procedure as opposed to the Equal Life Group procedure (ELG).

- a. State whether Mr. Kollen contends that the ELG procedure should never be used to calculate the depreciation expense of investor-owned utilities for ratemaking purposes and, if so, explain each basis for his contention.

- b. If it is not Mr. Kollen's contention that the ELG procedure should never be used to calculate the depreciation expense of investor-owned utilities for ratemaking purposes, identify those situations in which he contends that use of the ELG

procedure would be appropriate and explain why it would be appropriate in those circumstances.

c. On page 10, Mr. Kollen states, “[u]nder the ELG procedure, particularly if it is adopted after the utility historically has used the ALG procedure, the capital recovery periods are accelerated and shortened, and thus, the depreciation rates are greater than if the ALG procedure is used and/or maintained.” Explain whether Mr. Kollen is asserting that Atmos Energy Corporation (Atmos) has used the ALG procedure to calculate depreciation rates in the past.

d. Provide any potential issues that could occur if Atmos begins utilizing the ALG procedure instead of the ELG procedure to calculate depreciation rates.

e. Describe Mr. Kollen’s education, training, and experience as it relates to determining depreciation rates and procedures.

2. Refer to the Kollen Testimony, pages 14–20. Confirm that Atmos could integrate a historic period pipeline replacement program (PRP) rider into an annually filed, forecasted-test-period rate case. If confirmed, discuss the appropriate methodology for determining rate base for base rates after the PRP rider is filed using a historic period, and discuss how PRP rider amounts would be rolled into base rates.

3. Refer to the Kollen Testimony at pages 14–26, in which he discusses his proposed reductions to rate base arising from his reduction of PRP and Non-PRP capital expenditures.

a. State whether Mr. Kollen contends that Atmos failed to establish that its projected PRP and Non-PRP investment costs would lead to fair, just, and reasonable rates.

b. Identify and explain each basis for Mr. Kollen's contention that Atmos's projected PRP and Non-PRP investment costs, or any portions thereof, are unreasonable other than his assertion that the costs are inconsistent with the Commission's final Order in Case No. 2017-00349¹ and that the costs and projected costs have significantly increased since 2013.

c. Assuming Atmos's projections are accurate, state whether Mr. Kollen contends that Atmos's projected PRP and Non-PRP investment costs or any portion thereof are unnecessary to provide adequate service or are inconsistent with the investment costs of similarly situated companies, and explain each basis for his contentions.

4. Refer to the Kollen Testimony, page 26, lines 16–18. Explain whether this amount should be adjusted for inflation. If not, explain why not. If so, discuss whether a factor based on the consumer price index or the gross domestic product (GDP) deflator is more appropriate.

5. Refer to the Kollen Testimony, page 34, lines 9–13, and page 35, lines 19–20. Provide the methodology for removing the previously accrued allowance for funds used during construction (AFUDC) from rate base.

6. Refer to the Kollen Testimony, pages 36–38.

a. Provide the case number of any case in which the Commission has removed non-cash items from a lead/lag study or accepted a lead/lag study in which non-cash items were removed.

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

b. Explain in detail how a negative \$5.503 million cash-working capital is reasonable.

c. Provide any case that Mr. Kollen is aware of in which a utility has a negative cash-working capital.

7. Refer to the Kollen Testimony, page 38, line 20. Explain how the dividend component of the return on equity was calculated.

8. Refer to the Kollen Testimony, page 41, lines 7–10. Explain whether the recommendation to “cap the common equity” applies only to this proceeding.

9. Refer to the Kollen Testimony, page 44, lines 15–18.

a. Confirm that the debt issuance will likely occur before the public hearing in this proceeding. If confirmed, explain why the actual Treasury yield component of the debt issuance should not be utilized.

b. Explain whether Atmos’s proposed credit spread of 1.0 percent is reasonable.

10. Refer to the Kollen Testimony, page 47, lines 1–3. Provide all updates to the average actual authorized return on equity in general gas rate cases from January 2018 through December 2018, if available, and all supporting documentation regarding the same.

11. Refer to the Kollen Testimony, pages 48–50.

a. Identify any changes, excluding updates to the composite factors and revenue requirement impact, from Case No. 2017-00349, the Direct Testimony of Mr. Kollen, pages 63–65.

b. Confirm that Atmos has allocated costs in accordance with its cost allocation manual.

12. Refer to the Kollen Testimony, pages 49–50. Confirm that using total operating expenses as a component of the composite factor produces circular results in that allocated costs are included in total operating expenses. If this cannot be confirmed, provide a detailed explanation.

13. Refer to the Federal Energy Regulatory Commission (FERC) order issued on April 27, 2018, in the matter involving Midcontinent Independent System Operator, Inc., and others in which FERC determined that the “two-step averaging methodology” used to calculate accumulated deferred income tax (ADIT) in a future test period for ratemaking purposes resulted in unfair and unreasonable rates,² and refer to Atmos’s response to Staff’s Second Request, Item 70.

a. State whether Mr. Kollen has an opinion as to whether the “two-step averaging methodology” is required by normalization rules.

b. If so, provide his opinion and explain each basis for the same.



Gwen R. Pinson
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DATED **FEB 11 2019**

cc: Parties of Record

² *In Re Midcontinent Independent System Operator, Inc., et. al.*, 163 FERC P 61 , 061 , 2018 WL 2017529 (F.E.R.C. April 27, 2018).

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