

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ATMOS)	CASE NO.
ENERGY CORPORATION FOR PRP RIDER)	2020-00229
RATES)	

ORDER

The matter is before the Commission upon a motion for rehearing filed by Atmos Energy Corporation (Atmos) on October 19, 2020. The motion sought rehearing on certain aspects of the September 30, 2020 Order (Final Order) in this matter. The Final Order set forth Atmos's 2021 Pipeline Replacement Rider (PRP) rates and required certain revisions to Atmos's PRP tariff. Atmos raised three issues in its motion for rehearing. Each of the issues will be discussed along with the findings as follows.

1. Cost of Removal

The first issue raised by Atmos for rehearing involves a \$663,165 reduction to the cost of removal charged to accumulated depreciation (Cost of Removal), which Atmos asserts is not explained in the Final Order.¹ Atmos seeks clarification and confirmation that the allowable accumulated depreciation decrease for Cost of Removal is \$2,677,567, as it originally proposed.² In the alternative, Atmos asks the Commission to clarify the source of this adjustment.³

¹ Motion for Rehearing at 1.

² *Id.*

³ *Id.*

The reduction to the Cost of Removal was to reflect a 13-month average rate base. Cost of Removal is a rate base item and should be calculated in the same way as retirements removed from accumulated depreciation and the current period depreciation accruals. As explained in the Final Order:

[B]ecause Atmos was either unable or unwilling to calculate rate base using a 13-month average based on actual monthly projections, the Commission finds that spreading plant additions and retirements evenly throughout the forecasted period, as Atmos did to calculate rate base offsets, is the only reasonable method supported by the record to calculate a 13-month average rate base.⁴

The Cost of Removal is based on the forecasted plant retirements and should therefore also reflect a 13-month average. Atmos proposed a Cost of Removal of \$2,677,567, composed of \$1,351,236 and \$1,326,331, for fiscal years 2020 and 2021, respectively.⁵ Using equal monthly retirement amounts, the 13-month average Cost of Removal for fiscal year 2021 is \$663,165, which results in an adjustment of (\$663,165).⁶ The Cost of Removal adjustment was necessary to ensure all items of Atmos's PRP rate base to be on the same basis, as explained in the final Order. Therefore, while the Commission has provided the clarification requested, the Commission finds that Atmos's request for rehearing should be denied.

2. Accumulated Deferred Income Taxes (ADIT)

Atmos seeks rehearing and clarification regarding the calculation of the ADIT offset in the Final Order. Atmos argues that that there is an inconsistency with regards to the

⁴ Final Order at 5.

⁵ Application, Exhibits B, K-1 and K-2.

⁶ $\$1,326,331 / 2 = \$663,165$. $\$1,326,331 - \$663,165 = \$663,165$.

ADIT included in its PRP rate base between the \$(1,175,016) included in the text of the Final Order and the \$(1,930,185) reflected in Exhibit A.⁷ Atmos argues that \$(1,175,016) is the correct amount of ADIT to be reflected in its PRP rates.⁸

The Final Order states, in relevant part, that “the ADIT offset for PRP plant in this matter should include Atmos’s ADIT as of September 30, 2020, in the amount of \$(1,175,016), *as well as any change in the ADIT during the forecasted period.*”⁹ (Emphasis added.) Appendix A correctly reflects an ADIT of \$(1,930,185), which is the September 2020 ending balance of \$(1,175,016) and the change in the ADIT during the forecasted period, \$(755,169). Thus, contrary to Atmos’s assertions in its motion for rehearing, there is no inconsistency between the language of the Final Order and the Appendix to the Final Order.

The Commission also used Atmos’s own methodology to calculate the change in the ADIT during the forecasted period. Specifically, it was determined by calculating the pro-rata effect on rate base of the actual ADIT change during the forecasted period based on Atmos’s assumption that the timing differences would be generated equally throughout the forecasted period, which placed the ADIT on the same basis as a 13-month average of the other rate base changes;¹⁰ and then calculating the effect of Atmos’s tax expense

⁷ Motion for Rehearing at 1-2.

⁸*Id.*

⁹ Final Order (Ky. PSC Sept. 30, 2020).

¹⁰ See Final Order at 2, footnote 7; *see also In Re Midcontinent Independent System Operator, Inc., et al.*; 163 FERC ¶ 61061, 2018 WL 2017529 (FERC Dec. 20, 2018) (recognizing that the IRS found that the proration methodology required by normalization rules is a form of averaging when applied to a forecasted test period such that using the pro-rata method to calculate ADIT changes in a forecasted test period is consistent with using a 13-month average of other rate base items).

and the change in ADIT during the forecasted period on its net operating loss position in the exact same manner proposed by Atmos in this case and its most recent base rate case.¹¹ In fact, the only difference between Atmos's calculation of the change in ADIT during the forecasted period and the change in ADIT during the forecasted period reflected in the Final Order arose from the fact that the Order reduced Atmos's income and, therefore, reduced the extent by which net operating loss carryforwards (NOLC) were being used during the forecasted period.¹² As the Commission indicated, the reason that the ADIT offset in the Final Order was higher than Atmos's projection despite including a smaller increase in the ADIT offset during the forecasted period is that Atmos improperly failed to include the ADIT that accumulated prior to the forecasted period.

Atmos requests an order from the Commission finding that \$(1,175,016) is the correct amount of ADIT to be reflected in rates. However, for the reasons discussed above and in the Final Order, that amount would only account for the ADIT balance as of September 30, 2020, and would not account for changes during the forecasted period. Thus, having reviewed the relevant record and being otherwise sufficiently advised, the Commission finds that Atmos's request for a rehearing with respect to the ADIT offset should be denied.

¹¹ See Final Order at 6–7, footnote 15; see also See Atmos's Response to Commission Staff's First Request for Information (filed Sept. 4, 2020), Item 4, Attachment, Exhibit F.

¹² Atmos calculated the pro-rata of the change in ADIT during the forecasted period, "excluding forecasted change in NOLC," as \$(620,075). Atmos then calculated the "Forecasted Change in NOLC" during the forecasted period as \$(391,255), based on the difference between the pro-rata ADIT change of \$(620,075) and Atmos's projected income tax expense during the forecasted period. See Atmos's response to Commission Staff's First Request for Information, Item 4, Attachment, Exhibit F. The Commission similarly calculated the pro-rata of the change in ADIT during the forecasted period as \$(620,075) and then calculated that forecasted change in NOLC in the exact same manner as Atmos. See Final Order at 6–7, footnote 15. However, because the project tax expense was lower in the final Order, the extent by which NOLC could be used to reduce tax expense was reduced based on Atmos's methodology.

3. Return on Equity (ROE)

Atmos requests rehearing and reconsideration of the requirement to establish a new overall rate of return if the ROE it is seeking to use has been awarded by the Commission in the prior 24-month period.¹³ Atmos states that while it understands that an ROE could become “stale” such that the public interest requires it to be refreshed, there should be some reasonable period after the Commission establishes an ROE when the public’s interest in relitigating the issue is outweighed by the cost of doing so.¹⁴ Atmos argues that its allowed annual PRP investment is limited to \$28 million, and therefore, an ROE change of even 50 basis points would only produce a change in revenue requirement of approximately \$80,000, an amount that Atmos argues would be largely, if not entirely, offset by the cost of the needed ROE analysis and prepared testimony.¹⁵ Atmos further argues that (1) it would be very difficult to conduct a full inquiry into ROE in the time between the filing of a PRP Rider and the implementation of PRP Rider rates; and (2) if a rate proceeding was taking place at the same time as a PRP application, the Commission could end up adjudicating an identical issue simultaneously in two separate proceedings.¹⁶

Atmos does not provide any basis for its assumption that the costs of preparing ROE testimony would be recoverable through its PRP rates so as to offset any reduction in the ROE. Additionally, the likelihood of adjudicating the ROE in two proceedings is remote. Atmos has historically filed forecasted test-period rate cases and incorporated

¹³ Motion for Rehearing at 2.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

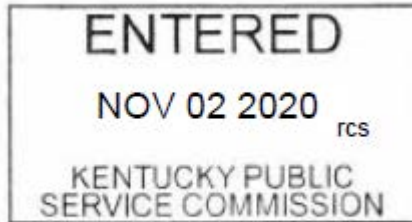
the PRP into base rates. Atmos would not file a PRP application at the same time it files a base rate case because the test periods would overlap. Hence, the Commission finds that Atmos's request for a rehearing should be denied.

IT IS THEREFORE ORDERED that:

1. Atmos's motion for rehearing is denied.
2. This case is closed and removed from the Commission's docket.

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By the Commission



ATTEST:



Deputy Executive Director

Case No. 2020-00229

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