

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**PETITION OF ATMOS ENERGY)
CORPORATION FOR ANNUAL)
REVIEW OF RATES) DOCKET NO. 14-_____**

**PRE-FILED TESTIMONY OF GREGORY K. WALLER
ON BEHALF OF ATMOS ENERGY CORPORATION**

I. INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Gregory K. Waller. I am Manager, Rates and Regulatory Affairs with Atmos Energy Corporation ("Atmos Energy" or "Company"). My business address is 5420 LBJ Freeway, Ste. 1600, Dallas, Texas 75240.

Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Arts degree in economics from Dartmouth College in 1994 and an MBA degree from the University of Texas in 2000. I worked as a management consultant from 1994 to 2003 at Harbor Research in Boston, MA (1994-1996) and Towers Perrin in Dallas, TX (1997-2003). I joined Atmos Energy in 2003 in the Planning and Budgeting Department in Dallas. In November of 2005 I became Vice President of Finance for the Kentucky/Mid-States Division, which includes the Company's regulated Tennessee operations. I assumed my current role in Dallas, TX in July 2012.

Q. WHAT ARE YOUR RESPONSIBILITIES AT ATMOS ENERGY?

1 I am responsible for managing rate proceedings filed primarily with state
2 regulatory bodies on behalf of the Company. My responsibilities include
3 execution of applications for changes to rates and tariffs as part of the traditional
4 rate cases, tariff language change proposals and annual rate making mechanisms
5 that the Company files in the 8 states in which it has regulated operations.

6 **Q. HAVE YOU TESTIFIED BEFORE THIS OR ANY OTHER**
7 **REGULATORY COMMISSION?**

8 A. Yes. I testified before the Tennessee Regulatory Authority ("Authority") in
9 Docket No. 05-000258 I also submitted testimony in Docket Nos. 07-00105, 08-
10 00197 and 12-00064. Additionally, I testified before the Kentucky Public
11 Service Commission in 2014 and the Georgia Public Service Commission in
12 2008, 2009 and 2011. I also submitted direct testimony in the Company's rate
13 proceedings in Kentucky (2006, 2009 and 2013) and Virginia (2008, 2013 and
14 2014).

15 16 **II. PURPOSE OF TESTIMONY**

17 **Q. WHAT SUBJECT AREAS DO YOU INTEND TO COVER IN YOUR**
18 **TESTIMONY?**

19 A. I will testify concerning the following subject areas:

20 1. The mechanics of the Company's proposed annual mechanism including
21 filing timelines, methodologies, and cost of service data sources in support
22 of:

- 23 • the proposed tariff, which is attached to my testimony as Exhibit

1 GKW-1, and

2 • Schedules 1 through 11, which are attached to the Company's Petition;

3 2. The Company's operating expense and capital budget processes; and

4 3. Control and monitoring of O&M and Capital Expenditure ("Capex")
5 budget variances.

6 **Q. ARE YOU SPONSORING ANY SCHEDULES?**

7 A. Yes. I am sponsoring the proposed tariff, attached to this testimony as Exhibit
8 GKW-1, as well as Schedules 1-10 attached to the Company's Petition. Company
9 witness Patricia Childers is sponsoring Schedule 11, attached to the Company's
10 Petition.

11
12 **III. PROPOSED ANNUAL RATE REVIEW MECHANISM SCHEDULES**

13 **Q. COMPANY WITNESS PATRICIA CHILDERS INTRODUCED THE**
14 **COMPANY'S PROPOSAL. CAN YOU PROVIDE DETAILS?**

15 A. Yes. The Company is exercising its statutory right to opt-in to an annual review
16 of its rates pursuant to Tennessee Code Annotated Section 65-5-103(d)(6). The
17 Company qualifies for this statutory annual review procedure because it has
18 engaged in a general rate case within the last five years, the Company's last
19 general rate case being Docket No. 12-00064. The revenue requirement for the
20 Company will be calculated and supported by eleven schedules and supporting
21 work papers ("Schedules") that document, calculate, and support the Company's
22 cost of service and resulting revenue deficiency or sufficiency. The proposed
23 Schedules are attached to the Company's application as Schedules 1-11 and

1 contain cost of service calculations for the Company's initial rate review under its
2 proposal. The Schedules, as well as the calculations, data sources and
3 methodologies contained within them, are consistent with those in Docket No. 12-
4 00064. I will, throughout the remainder of my testimony, describe the
5 methodologies, data sources and calculations employed to populate the Schedules
6 and explain and illustrate how they are consistent with those employed in Docket
7 No. 12-00064.

8 **Q. WHAT TIME FRAME IS THE COMPANY PROPOSING TO EMPLOY**
9 **FOR ITS ANNUAL FILING?**

10 A. The Company plans to file the revenue requirement, represented by Schedules 1-
11 11 and supporting work papers, on or before September 1st of each year. This is
12 the Annual Filing Date referenced in Exhibit GKW-1, the Company's proposed
13 tariff. The Historic Base Period is the 12 months ending June 30th each year and
14 the Forward Looking Test Year begins January 1st following the September 1st
15 filing each year. The timeframe allows 120 days for review, discovery and
16 resolution of issues by interested parties and approval by the Authority between
17 the filing date and the implementation of the annual rate change on January 1st.

18 **Q. PLEASE LIST THE SCHEDULES THAT COMPRISE THE COMPANY'S**
19 **PROPOSED ANNUAL REVENUE REQUIREMENT FILING.**

20 A. Schedules 1-11, as listed and described in the proposed tariff, Exhibit GKW-1, are
21 listed below. Schedules 1-10 are consistent in format, sources, and underlying
22 methodologies with Schedules 1-10 that were attached to the testimony of
23 Company witness Thomas Petersen in Docket No. 12-00064. Schedule 11 is

1 consistent with Exhibits 1-5 attached to the testimony of Company witness Joshua
2 Densman in Docket No. 12-00064. Some of the work papers supporting
3 Schedules 1-10 were included as exhibits or work papers of other witnesses in
4 Docket No. 12-00064 or developed for this proposal to ensure that the resulting
5 revenue requirement calculations are consistent with the methodologies adopted
6 in Docket No. 12-00064. The list of Schedules is as follows:

7 Schedule 1: Cost of Service

8 Schedule 2: Summary of Revenues at Present Rates

9 Schedule 3: Cost of Gas

10 Schedule 4: Operation and Maintenance Expenses

11 Schedule 5: Taxes Other than Income

12 Schedule 6: Depreciation and Amortization Expenses

13 Schedule 7: Rate Base and Return

14 Schedule 8: Computation of State Excise and Income Taxes

15 Schedule 9: Overall Cost of Capital

16 Schedule 10: Rate of Return

17 Schedule 11: Proof of Revenues and Calculation of Rates

18 **Q. PLEASE EXPLAIN SCHEDULE 1.**

19 A. Schedule 1 summarizes the elements of the cost of service, including gas cost
20 expense, operation and maintenance expense, depreciation expense, taxes other
21 than income taxes, return on rate base, income tax, allowance for funds used
22 during construction ("AFUDC") and interest on customer deposits. Schedule 1
23 compares the total cost of service to revenues at present rates in order to calculate

1 a net revenue deficiency or sufficiency. Schedule 1 sources data from each of the
2 other schedules.

3 **Q. PLEASE EXPLAIN SCHEDULES 2 AND 3.**

4 A. Schedule 2 shows per book revenues for the Historic Base Period ended June 30,
5 2014 and the projected Forward Looking Test Year revenues from Schedule 11.
6 Schedule 3 shows the Historic Base Period per books gas cost and the projected
7 cost of gas. The Forward Looking Test Year cost of gas is adjusted to remove
8 rent for inter-company leased storage property that is booked to gas cost. This
9 adjustment is consistent with the Authority's requirement in all of the Company's
10 rate filings and most recently in Docket No. 12-00064.

11 **Q. PLEASE EXPLAIN SCHEDULE 4.**

12 A. Schedule 4 shows the Historic Base Period per books operation and maintenance
13 expense, and the projected Forward Looking Test Year operation and
14 maintenance expense. The Schedule includes an adjustment to the Forward
15 Looking Test Year operation and maintenance expense to remove rent on inter-
16 company leased property and include operating expenses for that property. This
17 adjustment is consistent with the Authority's requirement in all of the Company's
18 rate filings and most recently in Docket No. 12-00064.

19 **Q. PLEASE PROVIDE MORE DETAIL ON THE DEVELOPMENT OF THE**
20 **FORWARD LOOKING TEST YEAR OPERATIONS AND**
21 **MAINTENANCE EXPENSE.**

22 A. The basis for the projected Forward Looking Test Year Operations and
23 Maintenance ("O&M") expense is the Company's fiscal year 2015 ("FY2015")

1 budget. Consistent with our normal annual budgeting timelines, this budget was
2 prepared during the summer of 2014. This budget was prepared in the manner I
3 describe later in my testimony. For the months of January through September
4 2015 (the first nine months of the initial Forward Looking Test Year), the
5 Forward Looking Test Year O&M is the Company's recently-completed FY2015
6 budget. For the months of October – December 2015 (the last three months of the
7 initial Forward Looking Test Year), I used the FY2015 budget for October –
8 December 2014 as adjusted for inflation, using methodologies consistent with
9 Docket No. 12-00064, as I will describe in detail below. The Forward Looking
10 Test Year projection was converted into FERC account detail using the method
11 described later in my testimony.

12 **Q. WHAT ARE THE COMPONENTS OF O&M FOR THE FORWARD**
13 **LOOKING TEST YEAR?**

14 A. The Forward Looking Test Year O&M is comprised of three parts: expenses
15 incurred and booked directly in Tennessee, allocated expenses from the
16 Kentucky/Mid-States Division's General Office, and allocated expenses from the
17 Company's Shared Services Unit ("SSU"). These components are itemized on
18 WP 4-1 which is consistent with Exhibit GW-2 from Docket No. 12-00064.

19 **Q. WHY DID THE COMPANY CHOOSE A JUNE ENDING HISTORIC**
20 **BASE PERIOD?**

21 A. The Company selected the June ending Historic Base Period and September 1
22 Annual Filing Date for its annual mechanism because those dates allow the
23 Forward Looking Test Year to be built with less emphasis on inflation factors.

1 The methodology for forecasting a Forward Looking Test Year relies on budgeted
2 data to the extent it is available and inflation factors when appropriate budget data
3 are not available. The selection of the June ending Historic Base Period and
4 September 1 Annual Filing Date ensures that the first nine months of the Forward
5 Looking Test Year can rely on the Company's recently completed budget without
6 inflation built into the forecast.

7 **Q. DID DOCKET NO. 12-00064 HAVE THE SAME INFLATION FACTOR**
8 **METHODOLOGY INCORPORATED INTO THE DEVELOPMENT OF**
9 **O&M?**

10 A. Yes. The development and application of inflation factors is consistent with the
11 methodologies used in Docket No. 12-00064. However, in this filing they are
12 only needed for the last three months of the Forward Looking Test Year.

13 **Q. WITHIN THAT CONTEXT, PLEASE DESCRIBE THE DEVELOPMENT**
14 **OF EACH O&M EXPENDITURE TYPE, BEGINNING WITH LABOR.**

15 A. Labor expense for the first nine months of the Forward Looking Test Year is the
16 Company's fiscal year 2015 labor budget, unadjusted, for those months for
17 Tennessee operations and the entities that allocate costs to Tennessee. The last
18 three months of the Forward Looking Test Year are adjusted to account for the
19 Company's annual merit increase. Base pay increases go into effect each October
20 1 and have averaged 3.0% annually for the past several years. An adjustment was
21 made as part of the forecast to account for an average wage increase of 3.0% to
22 become effective October 1, 2015. 3.0% is the same inflation factor used to
23 forecast labor in Docket No. 12-00064.

1 **Q. PLEASE EXPLAIN YOUR FORECAST FOR AND ADJUSTMENTS TO**
2 **BENEFITS.**

3 A. Benefits are budgeted as a fixed benefit load percentage of labor expense. An
4 adjustment to the fixed benefit load percentage was made in order to comply with
5 the Final Order in Docket No 12-00064 ("Final Order"). The adjustment removes
6 the accrual for FAS 87 (pension) expenses in the calculation of the fixed benefits
7 load. Separately, as detailed on WP 4-1, \$2,086,819 was added back to O&M to
8 account for the treatment of pension expense as prescribed in the Final Order in
9 Docket No. 12-00064.

10 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATING TO RENT.**

11 A. Unlike other O&M categories that are likely to increase with normal inflation, our
12 building rents are driven by leases already in place and can therefore be projected
13 with a high level of accuracy. Consistent with Docket No. 12-00064, a zero
14 percent inflation factor is applied to rent expense.

15 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATING TO BAD DEBT.**

16 A. Our goal is to maintain bad debt no higher than 0.50% of residential, commercial,
17 and public authority gross margins during any given year. Consistent with
18 Docket No. 12-00064, I calculated 0.50% of residential, commercial and public
19 authority gross margins from the revenue projection detailed on Schedule 11.

20 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATING TO OTHER**
21 **O&M.**

22 A. O&M expense types other than labor, benefits, rent, and bad debt are forecasted
23 using a standard inflation factor to adjust the last three months of the Forward

1 Looking Test Year. The 1.84% inflation factor used in this initial annual filing is
2 the average inflation rate for the southern region over the last two years as
3 reported by the U.S. Department of Labor. The development of this inflation
4 factor is consistent with the methodology in Docket No. 12-00064. The
5 development of the O&M forecast is consistent for each entity that allocates costs
6 to Tennessee. The appropriate level of expenses are allocated to the Tennessee
7 rate jurisdiction per the methodologies described in the Company's Cost
8 Allocation Manual attached the testimony of Company witness Jason Schneider.

9 **Q. DID YOU MAKE ANY ADJUSTMENTS FOR THE AMORTIZATION OF**
10 **DEFERRED RATE CASE EXPENSE?**

11 A. No. The balance of the deferred rate case expenses associated with Docket No.
12 12-00064 has been fully amortized. Because the Company is opting into an
13 annual rate review, annual expenses associated with prosecuting such filings are
14 expected to be minimal and annually recurring. Therefore, the Company does not
15 plan to seek deferred treatment for rate case expenses until its next general rate
16 case.

17 **Q. DID YOU MAKE ANY OTHER ADJUSTMENTS TO O&M?**

18 A. Yes. One other adjustment is made in recognition of the fact that the Final Order
19 in Docket No. 12-00064 approves and incorporates by reference a settlement
20 among the parties. In the settlement, the parties agreed to a specific level of
21 O&M expense. Accordingly, in order to remain true to the outcome of Docket
22 No. 12-00064, the Company, in this and subsequent annual filings, has and will
23 model the level of O&M in the Forward Looking Test Year to include the

1 reduction to O&M that was agreed upon in the parties' settlement and approved
2 and incorporated by reference in the Authority's Final Order.

3 **Q. HOW DID YOU DETERMINE THE AMOUNT OF THE ADJUSTMENT?**

4 A. The calculation of the adjustment is illustrated on WP 4-2. The Company's filed
5 O&M and position on pension treatment as well as the Consumer Advocate's
6 filed rebuttal O&M and position on pension treatment are part of the record in
7 Docket No. 12-00064. With those data points it is possible to calculate each
8 party's O&M position excluding pension treatment. Comparing the Company's
9 filed O&M excluding pension to the Consumer Advocate's O&M excluding
10 pension and the level of agreed upon O&M excluding pension makes it possible
11 to calculate the level of O&M reduction, from the Company's filed position, that
12 is encompassed by the settlement. That level of reduction is \$1,525,077. Because
13 pension treatment is specifically addressed in the Final Order, it is then simple to
14 add-back the pension treatment from the Final Order to arrive at the appropriate
15 level of O&M for this and future Forward Looking Test Years. Because the
16 Company's Forward Looking Test Year O&M is forecasted in the same manner
17 that it was in Docket No 12-00064 and prior cases, it is a valid starting point from
18 which to apply the approved settlement.

19 **Q. PLEASE EXPLAIN SCHEDULE 5.**

20 A. Schedule 5 shows Historic Base Period per books taxes other than income taxes
21 expense, and Forward Looking Test Year taxes other than income taxes expense.
22 Taxes, other than income taxes, like O&M, are comprised of three components:
23 direct Tennessee taxes, taxes allocated from the General Office, and taxes

1 allocated from SSU. These components are itemized by type of tax on WP5-1
2 which is consistent with Exhibit GW-3 from Docket No. 12-00064. The amount
3 of taxes allocated from the Division General Office and SSU is based upon the
4 cost allocation methodology more fully explained in the Company's Cost
5 Allocation Manual attached the testimony of Company witness Jason Schneider.
6 I have adjusted the Forward Looking Test Year taxes other than income taxes
7 expense to include taxes for intercompany leased property. The adjustment is
8 consistent with established Tennessee rate-making practice and Docket No. 12-
9 00064.

10 **Q. PLEASE EXPLAIN SCHEDULE 6.**

11 A. Schedule 6 shows the Historic Base Period per books depreciation and
12 amortization expense, and the Forward Looking Test Year depreciation and
13 amortization expense. Depreciation and amortization expense for the Forward
14 Looking Test Year is calculated, using depreciation rates most recently approved
15 in Tennessee, on WP 6-2. The depreciation rates for SSU and the division
16 General Office have been applied to the applicable categories of plant, resulting in
17 an allocation of depreciation expense to Tennessee based upon the cost allocation
18 methodology more fully explained in the Company's Cost Allocation Manual
19 attached to the testimony of Company witness Jason Schneider. I have adjusted
20 the Forward Looking Test Year depreciation expense to include expense for
21 intercompany leased property. The adjustment is consistent with established
22 Tennessee rate-making practice and Docket No. 12-00064. In addition, I have
23 adjusted amortization expense to account for a 2 year amortization of the

1 Company's regulatory asset related to pension expense that was created in
2 accordance with the Final Order in Docket No. 12-00064.

3 **Q. PLEASE PROVIDE MORE DETAIL ON THE SOURCE OF THE**
4 **DEPRECIATION RATES USED TO CALCULATE DEPRECIATION AND**
5 **AMORTIZATION EXPENSE ON SCHEDULE 6.**

6 A. The depreciation rates currently used for the Company's assets in its direct
7 Tennessee operations are based on a depreciation study using plant data through
8 fiscal year 2006 and were approved in Docket No. 07-00105. Those depreciation
9 rates were utilized in the Company's last rate case, Docket No. 12-00064. I will
10 discuss the Company's specific proposal for handling depreciation rates in future
11 annual rate review filings later in my testimony. The depreciation rates currently
12 used for the General Office of the Kentucky Mid-States operating division are
13 based on a depreciation study using data through fiscal year 2007 and were
14 approved in Docket No. 08-00197. The depreciation rates currently used for SSU
15 assets are based on a depreciation study using data through fiscal year 2010 and
16 were approved in Docket No. 12-00064. The rates contained in that study and
17 approved by the Authority are the same rates approved and booked by the
18 Company in 7 of the 8 states we serve, including Tennessee.

19 **Q. HOW DOES THE COMPANY PROPOSE TO HANDLE DEPRECIATION**
20 **RATES IN SUBSEQUENT ANNUAL RATE REVIEW FILINGS?**

21 A. Prudent rate making and accounting requires that depreciation rates be updated
22 periodically. The Company typically endeavors to update its depreciation rates in
23 its various operating divisions and entities housing shared assets (such as the

1 Kentucky Mid-States General Office and SSU) every 4-6 years. For various
2 reasons, that timeframe may be extended due to rate proceeding filing schedules
3 or other circumstances. The Company is not proposing to change depreciation
4 rates in this initial annual filing. However, the Company does plan to conduct
5 depreciation studies in the future consistent with prudent accounting and rate
6 making procedures. In the event it conducts a depreciation study for its
7 Tennessee operations or any of the entities that house shared assets that support
8 Tennessee operations, the Company will plan to file the depreciation study with
9 the TRA and Consumer Advocate and ask that the rates contained in the study be
10 approved for its next annual review. Following any necessary discovery, rebuttal
11 and ultimate approval of new rates, the Company will plan to calculate
12 depreciation expense using the newly approved rates in its subsequent annual rate
13 review filing. To assist with review, the Company will file any new depreciation
14 study when it is completed, rather than waiting until it makes its September 1
15 annual review filing.

16 **Q. PLEASE EXPLAIN SCHEDULE 7.**

17 A. Schedule 7 shows the calculation of the Historic Base Period per books rate base,
18 and Forward Looking Test Year rate base. The rate base includes the projected
19 thirteen month averages of the original cost of plant, accumulated depreciation,
20 storage gas investment, materials and supplies, accumulated deferred income tax
21 ("ADIT"), customer advances, customer deposits and accumulated interest on
22 customer deposits. These items are generally consistent with the items included
23 in rate base in the company's monthly 3.03 reports to the TRA.

1 **Q. WHAT ADJUSTMENTS ARE MADE TO THE HISTORICAL BASE**
2 **PERIOD AND FORWARD LOOKING TEST YEAR RATE BASE?**

3 A. In addition to the items included in the 3.03 reports, Schedule 7 includes
4 adjustments for cash working capital and the net book value of inter-company
5 leased property. This adjustment is consistent with the Authority's requirement in
6 all of the Company's rate filings and most recently in Docket No. 12-00064.

7 **Q. WHAT OTHER ADJUSTMENTS ARE MADE TO THE HISTORICAL**
8 **BASE PERIOD AND FORWARD LOOKING TEST YEAR RATE BASE?**

9 A. In addition, I have adjusted rate base to include the average balance of the
10 Company's regulatory asset related to pension expense deferral that was created
11 in accordance with the Final Order in Docket No. 12-00064.

12 **Q. HOW IS THE FORWARD LOOKING TEST YEAR RATE BASE**
13 **DEVELOPED?**

14 A. Each of the other rate base items is projected into the Forward Looking Test Year
15 individually. The projected plant amounts are based on projected capital
16 additions as discussed later in my testimony. The projected accumulated
17 depreciation incorporates the currently-approved depreciation rates as discussed
18 earlier in my testimony. CWIP is projected to remain at the June 2014 level
19 through the Forward Looking Test Year as capital spending is offset by
20 completing projects and placing assets in service. Holding the level of CWIP
21 constant at its balance as of the end of the Historic Base Period is consistent with
22 past Tennessee practice including Docket No. 12-00064. Forward Looking Test
23 Year storage gas balances are based on actual balances through June 2014, the last

1 day of the Historic Base Period, and forecasted storage usage with future
2 injections priced at NYMEX futures prices as of August 2014. Materials and
3 supplies and customer advances are predicted to remain at the June 2014 level, the
4 last day of the Historic Base Period, through the Forward Looking Test Year.
5 Forward Looking Test Year accumulated deferred income taxes were calculated
6 by the Company's tax department based on plant forecasts. Customer deposits
7 are projected to increase at 0.35% annually from test year levels.

8 **Q. HOW WAS CASH WORKING CAPITAL CALCULATED IN THIS**
9 **INITIAL ANNUAL RATE REVIEW FILING AND HOW DO YOU**
10 **PROPOSE TO CALCULATE IT IN FUTURE ANNUAL FILINGS?**

11 A. The Company, consistent with rate making practice in Tennessee, conducted a
12 lead-lag study in order to calculate cash working capital requirements in Docket
13 No. 12-00064. The study was incorporated in the testimony of Company witness
14 Thomas Petersen. Rate base is the value of invested capital, including all items
15 used to provide utility service. Cash working capital is the capital investment in
16 addition to other rate base items that is required to bridge the gap between when
17 cash is paid for expenses necessary to provide service and when cash is received
18 from customers for that service. A lead-lag analysis is a method of measuring the
19 amount of cash working capital used to provide utility service. This analysis
20 compares two different lags. The lag between (1) the provision of service to
21 customers and the collection of cash from customers is compared to the lag
22 between (2) the recording of expenses and the payment of cash by the company
23 for those expenses. Rather than conduct a new lead-lag study with each annual

1 rate review filing, the Company has applied the lead-lag factors from the study
2 conducted for Docket No. 12-00064 to the Forward Looking Test Year expenses
3 and revenues in order to calculate cash working capital requirements.

4 **Q. PLEASE ELABORATE ON FORECASTED PLANT ADDITIONS.**

5 A. Plant additions for the period between the end of the Historic Base Period and the
6 end of the Forward Looking Test Year are, as in Docket No. 12-00064, made up
7 of projected and budgeted plant additions from the Company's monthly
8 projections and most recently completed capital budget. The capital budget for
9 the Forward Looking Test Year in this initial annual rate review filing is \$31.0
10 million. The total capital budget is comprised of three components: (1) the
11 capital spending for Tennessee for the forecasted period; (2) the amount allocated
12 to Tennessee resulting from capital spending by the KY/Mid-States Division's
13 general office; and (3) the amount allocated to Tennessee resulting from capital
14 spending by the Company's Shared Services (SSU) during the Forward Looking
15 Test Year. Tennessee's capital budget was developed by the following major
16 categories:

- 17 1. Equipment;
- 18 2. Growth;
- 19 3. Information Technology (IT);
- 20 4. Pipeline Integrity;
- 21 5. Public Improvements;
- 22 6. Structures;
- 23 7. System Improvements;

1 8. System Integrity; and

2 9. Vehicles.

3 The capital budget is, consistent with the methodologies in Docket No. 12-00064,
4 converted to plant account ("300 account") detail for the purpose of projecting
5 additions, retirements, depreciation expense, accumulated depreciation and
6 resulting net plant.

7 **Q. DID YOU MAKE ANY OTHER ADJUSTMENTS TO RATE BASE?**

8 A. Yes. As discussed earlier in my testimony, the Final Order in Docket No. 12-
9 00064 approves and incorporates by reference a settlement among the parties. A
10 review of Schedule 3 of the Settlement Exhibit attached to the Final Order in
11 Docket No. 12-00064 reveals only two components of rate base where the
12 stipulated rate base differs from the Company's filed rate base. The first is cash
13 working capital. The differences for cash working capital are "flow-through"
14 differences which means they result from other adjustments made throughout the
15 filing to O&M and revenues. Because the methodologies adopted in Docket No.
16 12-00064 used for O&M and revenues are also used in this and future annual rate
17 review filings, the flow through impacts captured in Docket 12-00064 are
18 captured in this and future annual reviews. The other difference on Schedule 3 is
19 a line labeled "Misc. Rate Base Adjustment - Settlement". The amount is
20 \$6,582,062. In order to remain true to the outcome of Docket No. 12-00064, the
21 Company, in this and subsequent annual filings, has and will model the level of
22 rate base in the Forward Looking Test Year to include the adjustment that was

1 agreed upon in the parties' settlement and approved and incorporated by reference
2 in the Authority's Final Order.

3 **Q. PLEASE EXPLAIN SCHEDULE 8.**

4 A. Schedule 8 shows the calculation of state excise taxes and income taxes on the
5 required return on rate base for both the Historic Base Period and the Forward
6 Looking Test Year.

7 **Q. PLEASE EXPLAIN SCHEDULE 9.**

8 A. Schedule 9 shows the calculation of the overall cost of capital based on the capital
9 structure, debt cost rates and the required rate of return on equity that are required
10 based on the methodologies in Docket No. 12-00064. The capital structure is the
11 average capital structure of the Company over the last 3 years as of the last day of
12 the Historic Base Period. The costs of short term and long term debt are
13 calculated on WP 9-2 and WP 9-3 which are consistent with those in Docket No.
14 12-00064. The 10.1% return on equity is the ROE specified in the Final Order of
15 Docket No. 12-00064.

16 **Q. PLEASE EXPLAIN SCHEDULE 10.**

17 A. Schedule 10 shows the calculation of a rate of return on rate base and a rate of
18 return on the equity financed portion of rate base for the Historic Base Period and
19 the Forward Looking Test Year, with costs and revenues as presented in
20 Schedules 2 through 9.

21 **Q. PLEASE EXPLAIN SCHEDULE 11.**

22 A. Schedule 11 presents the forecasted billing determinants and calculation of new
23 tariff rates by customer class and rate schedule for the Forward Looking Test

1 Year consistent with the cost of service and net revenue deficiency / sufficiency
2 presented in Schedule 1. The specific calculations and sponsorship of the data in
3 Schedule 11 are contained in the testimony of Company witness Patricia Childers.

4 **Q. PLEASE EXPLAIN “NEW MATTERS” AS REFERENCED IN GKW-1.**

5 A. These are new issues, adjustments, or ratemaking topics (collectively, “New
6 Matters”) that would affect the annual filing and for which there is no prior
7 determination regarding Atmos Energy by the Authority.

8
9 **IV. BUDGETING PROCESS**

10 **Q. WHAT ARE THE OBJECTIVES OF THE COMPANY’S O&M**
11 **BUDGETING PROCESS?**

12 A. The objectives are to: (1) formalize the process of identifying the anticipated costs
13 of operating and maintaining Atmos Energy’s systems each year; (2) ensure that
14 all policies and procedures associated with the annual budgeting process are
15 consistently adhered to by the functional managers and officers; (3) assess the
16 appropriateness of routine maintenance requirements and non-capital
17 expenditures proposed by the functional managers and officers to ensure that the
18 amounts do not exceed a level necessary to deliver safe, reliable, and efficient
19 natural gas service to the Company’s customers; and (4) ensure that the O&M
20 budget properly reflects our strategic operational and financial plans. These
21 objectives are applicable to the Company as a whole (including SSU) as well as to
22 its various division, state, and local level operations.

23 **Q. CAN YOU DESCRIBE THE COMPANY’S O&M BUDGETING**

1 **PROCESS?**

2 A. Yes. O&M costs are budgeted on a fiscal year basis, which begins on October 1
3 of each year (consistent with the seasonal operations of our business) and runs
4 through September 30 of the following year. Preparation of operating and
5 construction budgets for a fiscal year formally begins in late May of each year and
6 culminates with completion of final budgets in August, just prior to the beginning
7 of the fiscal year. Budget preparation is based on meeting the four objectives
8 described in my preceding answer. Budgets are approved at multiple levels
9 beginning with supervisor/managers up through division leadership. Additional
10 reviews are performed by corporate executive operations management and their
11 staff. High level reviews of the division budgets are also performed by the
12 Company's senior executives who are presiding members of the Company's
13 Management Committee. The Board of Directors must review and approve the
14 total Company budget before finalization and implementation. This approval
15 typically occurs in September of each year.

16 **Q. WHAT ROLE DOES THE O&M BUDGETING PROCESS PLAY IN THE**
17 **COMPANY'S FINANCIAL PLANNING?**

18 A. Atmos Energy's Business Planning and Analysis Department is responsible for
19 financial planning at the enterprise level. That department receives direction from
20 the Board of Directors concerning forward-looking financial objectives for the
21 Company. Business Planning and Analysis is responsible, with significant input
22 and collaboration from division leadership, for translating those enterprise targets
23 into a financial plan for each division and rate jurisdiction. It is the collaboration

1 between Business Planning and Analysis and division leadership that ensures that
2 all four of the objectives described above are met each year. Spending targets are
3 established as a result of this collaboration.

4 **Q. HOW IS THE OPERATIONS LEADERSHIP OF THE COMPANY**
5 **INVOLVED IN THE PROCESS?**

6 A. The division finance department communicates certain budget guidelines such as
7 average wage increase percentages and anticipated benefits rates to managers and
8 supervisors (cost center owners). Each cost center owner is responsible for
9 building his or her department's budget and submitting it for review and approval
10 along the appropriate approval chain. The Division finance department budgets
11 several items on behalf of the entire Division such as bad debt provision, legal
12 expenses, etc. An iterative process involving Division leadership, the finance
13 department and the cost center owners ultimately produces an O&M budget that
14 meets the needs of our operations, ensures that we operate safely, reliably and
15 efficiently, and allows the Division to contribute to the financial success of Atmos
16 Energy. This process is used to develop the direct O&M budget for Tennessee, as
17 well as the Division's general office O&M budget. A portion of the Division's
18 general office O&M budget is allocated to Tennessee in accordance with the
19 allocation methods addressed in the Company's Cost Allocation Manual filed
20 with the testimony of Company witness Jason Schneider.

21 **Q. SO FAR YOU HAVE DESCRIBED THE O&M BUDGETING PROCESS.**
22 **CAN YOU EXPLAIN HOW THE BUDGET IS PREPARED WITHIN THE**
23 **PARAMETERS OF THIS PROCESS?**

1 A. Yes. The O&M budget is prepared by type of cost element, such as labor,
2 benefits, transportation, rents, office supplies, etc. Within each cost element we
3 budget expenses at the sub-account level. The prior year's actual costs, year to
4 date actual costs, and budgeted costs for the remainder of the fiscal year are used
5 as guidelines for budgeting by functional managers and officers. The budgets are
6 prepared using a web based software tool called PlanIt. This tool allows cost
7 center owners to enter their budgets and allows Kentucky/ Mid-States Division
8 management to review budgets using a number of standard and ad hoc reports.

9 **Q. ARE THESE BUDGETS PREPARED BY FERC ACCOUNT?**

10 A. No. In our experience, FERC accounts do not provide a sufficient level of detail
11 to enable us to understand the costs within each account. For budgeting purposes
12 (and subsequent managing of expenses), we need individualized expense types
13 that relate to the operation of each cost center. FERC accounts do not provide
14 that level of detail. However, when we incur costs, we do identify our
15 expenditures by FERC account as well as expense type. This provides a timely
16 analysis of the type of charges being expensed by FERC account.

17 **Q. HOW DOES ATMOS ENERGY CONVERT ITS O&M BUDGET BY COST**
18 **ELEMENT INTO FERC ACCOUNTS?**

19 A. To convert our budget and forecast to FERC accounts, Historic Base Period actual
20 expenditures are downloaded from the general ledger by FERC account and cost
21 element. A calculation was then made to determine within each cost element type
22 the percentage of spending attributable to each FERC account. Each percentage
23 factor was then applied to the Forward Looking Test Year forecast by cost type to

1 develop a forecast by FERC account.

2 **Q. CAN YOU DESCRIBE THE SSU BUDGETING PROCESS?**

3 A. The annual budget for SSU O&M is developed using the same methods,
4 processes, and controls that I have described above. SSU is, however, slightly
5 different.

6 **Q. HOW DOES SSU DIFFER?**

7 A. Perhaps the easiest way to explain the SSU budgeting process is to begin with a
8 brief explanation of how SSU is organized. SSU is comprised of functional
9 service groups such as planning and budgeting, accounting, legal, rates,
10 information technology, gas supply, customer support, risk management, etc.
11 Each functional service group is comprised of one or more cost centers, such as
12 accounting which, at the high level, consists of the Company's controller, general
13 accounting services, tax services, revenue accounting, and financial reporting.
14 These cost centers may have additional cost centers below them that roll up into
15 the cost center for total budgeting purposes, such as plant accounting within
16 general accounting. The Business Planning and Analysis group works with and
17 supports the Company's utility divisions, subsidiaries, and SSU cost center
18 owners in the development of their annual budgets.

19 Each SSU cost center owner, whether an officer, managerial director,
20 manager or supervisor of the Company, is responsible for developing his or her
21 annual budget as part of the Company-wide annual budgeting process, except for
22 certain pre-determined costs developed by planning and budgeting or another
23 group that has knowledge of the pre-determined cost. An example of a pre-

1 determined cost is the allocated portion of corporate office rent. Pre-determined
2 costs are provided to cost center owners for inclusion in their cost center budgets.

3 Once an SSU cost center budget has been prepared, it is subject to the
4 same managerial review and approval processes that are used for the budgets of
5 the Company's utility divisions and subsidiaries. Once approved, the SSU cost
6 center's budget is subject to the same ongoing control processes, including
7 variance monitoring, that I have describe below.

8 **Q. WHAT ARE THE OBJECTIVES OF THE COMPANY'S CAPITAL**
9 **BUDGETING PROCESS?**

10 A. The objectives are to:

- 11 (1) Formalize the process of identifying construction needs and prioritizing
12 capital expenditures;
13 (2) Assess the economic feasibility of individual construction projects;
14 (3) Determine overall capital requirements for the planning periods;
15 (4) Reassess long term system maintenance requirements annually; and
16 (5) Review past construction projects and work practices, and apply procedural
17 improvements as appropriate.

18 **Q. PLEASE DESCRIBE THE PLANNING AND BUDGET PROCESS FOR**
19 **THE COMPANY'S CAPITAL CONSTRUCTION PROGRAM.**

20 A. The annual timing of the Capex budgeting process mirrors the O&M budgeting
21 process. The process is initiated within the Division by a request for a "bottom-
22 up" submission of projects from our operations supervisors and operations
23 managers in Tennessee. All proposed projects, vehicles, and equipment must be

1 identified at a high level by need and cost, and all budgets are prepared based
2 upon meeting the five objectives described above. The proposed projects,
3 vehicles, and equipment are reviewed by the KY/Mid-States Division's regional
4 vice presidents of operations for collaborative agreements between the regional
5 vice presidents, operations managers, and Technical Services Department. After
6 review, additional information is requested for projects that are determined to be
7 the most eligible for funding, and more detailed documentation is requested from
8 the operations and technical services managers on those particular projects.
9 Typically the process is largely complete by late June when projects are entered
10 into the Atmos Energy capital budget system (PlanIt), although finalization of
11 capital expenditures is not completed until late July or early August. During this
12 time, the agreed-to projects have been further substantiated to ensure they meet
13 the appropriate financial criteria and the stated objectives.

14 The final proposed budget must be reviewed by the Division's senior
15 management, including the Division President. Additional reviews are performed
16 by corporate executive operations management and their staff. High level reviews
17 of the division budgets are also performed by the Company's senior executives
18 who are presiding members of the Company's Management Committee. Upon
19 approval by the Company's Board of Directors, typically in September of each
20 year, all approved projects are transferred into the Atmos Energy capital tracking
21 system (POWERPLANT) and are ready for appropriation.

22 **Q. HOW DOES ATMOS ENERGY PRIORITIZE ITS CAPITAL**
23 **EXPENDITURES?**

1 A. Our priorities for capital expenditure, listed in order of importance, are:

2 1. Public Safety;

3 2. System Capacity and Reliability;

4 3. Customer Growth;

5 4. Facilities Maintenance;

6 5. Public Works; and

7 6. Support of Long Term Technological Programs.

8 **Q. WHAT FINANCIAL CRITERIA ARE THE MOST SIGNIFICANT IN**
9 **APPROVING A PROJECT DURING THE CAPITAL BUDGETING**
10 **PROCESS?**

11 A. We begin work with an overall capital spending goal, which we try to work
12 within, although variations are permitted if justified. We also use key investment
13 criteria to evaluate projects. Any expenditure above targeted levels must be
14 justified.

15 **Q. MUST ALL PROJECTS MEET THE SAME FINANCIAL CRITERIA?**

16 A. No. We separate projects into growth and non-growth capital expenditures.
17 Growth projects are revenue-producing investments for which we can identify a
18 stream of revenues, cash flow, return, payback and other standard investment
19 criteria. Non-growth capital expenditures involve system integrity, equipment,
20 structures, pipeline integrity, system maintenance and reliability projects which
21 are evaluated on a cost/benefit basis. Obviously, there are certain non-growth
22 expenditures that do not impact public safety that can be scheduled into our five-
23 year investment program to ensure that we properly maintain our system while

1 still operating within overall cash flow constraints. Expenditures that impact
2 public safety always have had and will continue to have the highest priority. We
3 take our obligation to build and operate a safe and reliable gas system very
4 seriously. Finally, there are also a number of projects we must fund which we
5 have little control over as to timing, such as public works projects and highway
6 relocations.

7 **Q. PLEASE DESCRIBE SSU CAPEX BUDGETING.**

8 A. The SSU Capex budget is developed using the same general methods and
9 processes employed for the Kentucky/Mid-States Division's Capex budget. There
10 are, however, some notable differences.

11 **Q. PLEASE DESCRIBE THE DIFFERENCES.**

12 A. Although a particular Capex item may be budgeted by an SSU cost center owner,
13 such as the purchase of new office equipment, the majority of SSU Capex costs
14 consists of information technology hardware and software systems. These costs
15 are budgeted in the SSU Information Technology ("IT") costs centers. For
16 example, if tax services required a new property tax management system, then the
17 IT group would work with tax services to budget the costs of purchasing or
18 developing and implementing the new system. IT will include these costs as part
19 of the IT Capex budget for SSU information technology capital projects. The
20 SSU Capex budget is subject to the same managerial review and pre-approval
21 processes as that of the operating divisions.

22 **Q. WHY IS THIS DISCUSSION OF THE BUDGETING PROCESS**
23 **IMPORTANT AND RELEVANT TO THIS APPLICATION?**

1 A. Consistent with previous cases in Tennessee, including Docket No. 12-00064, the
2 Forward Looking Test Year relies heavily on the Company's most recently
3 completed budget for O&M and capital expenditures in order to forecast cost of
4 service. Thus the process by which we construct annual operating expense and
5 Capex budgets is relevant and the integrity and rigor involved in those processes
6 is critical in establishing credibility in the Company's annual filing.
7

8 **V. CONTROL AND MONITORING OF O&M AND CAPEX**

9 **Q. DOES THE COMPANY EMPLOY ANY MECHANISMS TO MONITOR**
10 **AND CONTROL O&M ACCORDING TO BUDGETED LEVELS?**

11 A. Yes. Atmos Energy utilizes variance monitoring to ensure financial quality
12 control of O&M expenses by formalizing the analysis of variances by cost type
13 and cost center. On a quarterly basis, we present our Division's actual to budget
14 variances with explanation to the Company's Management Committee, SSU
15 department heads, select Board of Directors members and external auditors at a
16 formal Quarterly Performance Review. The goal is to keep all levels of
17 management informed of our O&M spending in comparison to budgeted amounts,
18 in order to allow management to react to unanticipated events on a timely basis.

19 **Q. ARE O&M VARIANCES EVALUATED MORE FREQUENTLY THAN**
20 **ON A QUARTERLY BASIS?**

21 A. Yes. Each Division finance department conducts a thorough review of O&M
22 actual to budget variances each month.

1 **Q. PLEASE DESCRIBE YOUR MONTHLY VARIANCE REVIEW**
2 **PROCESS.**

3 A. We begin by examining, at the Division level, significant variances by cost type
4 (labor, benefits, materials, rents, etc.). Significant variances are researched until
5 an explanation is found. Reasonable explanations could include events that
6 affected the entire Division or a particular cost center or region. In some cases,
7 clarifying information is sought from cost center owners to explain unusual
8 variances or transactions. For some cost types, clarifying analysis is provided by
9 SSU departments. If errors are found, they are most often corrected in the current
10 month's business. Occasionally, however, errors are discovered after the books
11 are closed, and, depending on materiality, they are corrected in the following
12 month's business.

13 **Q. DOES ANYONE ELSE WITHIN THE DIVISION HAVE THE ABILITY**
14 **TO MONITOR OR REVIEW O&M VARIANCES?**

15 A. In addition to the research conducted by the finance department, each cost center
16 owner has the ability to run variance reports throughout the monthly closing
17 process. Because cost center owners are held accountable for significant
18 variances to budget, they conduct their own research and often contact the finance
19 department when they find errors or have questions about the expenses that were
20 charged to their cost centers.

21 **Q. WHAT CONTROLS AND REPORTING ARE INVOLVED IN THE**
22 **MONTHLY CLOSE PROCESS REGARDING O&M VARIANCES?**

1 A. Once the monthly books are closed, the SSU Financial Reporting department in
2 Dallas publishes (electronically) the monthly Atmos Energy Financial Package.
3 This package details the financial performance for Atmos Energy at the corporate
4 and each division level. For each division, the report includes a comparative
5 income statement, operating statistics page (volumes, total spending), O&M detail
6 page, balance sheet highlights page, and financial highlights page. The financial
7 highlights page reports the Division's monthly and year-to-date (YTD)
8 performance versus budget for net income, gross profit, direct O&M and capital
9 spending. The Division Finance VP provides narrative comments on this page to
10 describe our monthly and YTD variances. Once complete, this Financial Package
11 is available to all Atmos Energy officers and Board members for review and is an
12 official SOX control document of the Company. Once the package is complete,
13 the Division Finance VP complete an online questionnaire generated by our SOX
14 Compliance Tool certifying that his department has conducted a thorough review
15 of the division's financial performance and the Financial Package and addressed
16 all matters therein. The Company's external auditors look for this certification as
17 evidence of SOX compliance.

18 After meeting the Financial Package control requirement, the finance
19 department publishes (electronically) detailed O&M reports that include monthly
20 and YTD variances for each cost center and these reports are then made available
21 to each cost center owner and their respective managers (managers, Division Vice
22 Presidents, Division President). This activity ensures that each cost center owner
23 receives the same information in the same format each month in a timely fashion

1 in order to make operational decisions and manage our operations effectively and
2 efficiently.

3 **Q. WHAT ARE THE GOALS OF THE COMPANY'S PROCESS OF**
4 **CONTROLLING AND MONITORING CAPITAL EXPENDITURE**
5 **VARIANCES?**

6 A. Variances from budgeted amounts are inherent in the process of making capital
7 expenditures. Our variance monitoring process exists to institute financial quality
8 control by formalizing the analysis of variances by responsibility center in a
9 process that identifies year-to-date spending variances by project. These reports
10 are received and reviewed every month at the business unit level and on a
11 quarterly basis at the corporate level. The goal is to keep all levels of
12 management informed of spending by category or project relative to budgeted
13 levels and to ensure that corrective action is initiated on a timely basis. This
14 supports decision-making related to the cost and appropriate management of
15 current and future capital projects.

16 **Q. PLEASE DESCRIBE THE COMPANY'S PROCESS FOR**
17 **CONTROLLING AND MONITORING CAPITAL EXPENDITURE**
18 **VARIANCES.**

19 A. The Company's capital budgeting system maintains projects in two broad
20 categories – Blanket Functionals and Specific Projects. The Blanket Functionals
21 include total capital authorizations of a similar type such as new services, leak
22 repair, short main replacements, small integrity/reliability projects, etc. Specific
23 projects are uniquely identified, such as a specific highway relocation project,

1 replacement of work equipment, or some larger significant integrity/reliability
2 project.

3 Once a project has been entered in the capital budget system an
4 appropriation request is routed for approval. Projects are then monitored to
5 ensure they stay within budgeted levels. If during the course of a project, field
6 management identifies that the costs of the project will exceed approved amounts,
7 a request for supplemental funding may be submitted. All expenditures above
8 authorized appropriation, and all expenditures for unbudgeted projects or
9 variances on budgeted and approved projects, must be approved at the appropriate
10 levels within the Company.

11 Each month, various project variance reports are published. Each manager
12 is responsible for a budget center and held accountable for managing the overall
13 approved capital budget.

14 **Q. WHY IS THIS DISCUSSION OF CONTROLS IMPORTANT AND**
15 **RELEVANT TO THIS APPLICATION?**

16 A. Consistent with previous cases in Tennessee, including Docket No. 12-00064, the
17 Forward Looking Test Year relies heavily on the Company's most recently
18 completed budget for O&M and capital expenditures in order to forecast cost of
19 service. Thus the process by which we monitor expenditures and hold leaders
20 accountable for managing the business within the constraints of those budgets is
21 relevant and the integrity and rigor involved in those processes is critical in
22 establishing credibility in the Company's annual filing.

1

2

VI. CONCLUSION

3

**Q. DO YOU BELIEVE THAT THE FORWARD LOOKING TEST YEAR
FORECASTS YOU HAVE PRESENTED ARE THE MOST REASONABLE
ESTIMATES OF COST OF SERVICE COMPONENTS FOR THIS AND
FUTURE ANNUAL RATE REVIEW FILINGS CONSISTENT WITH
TENNESSEE CODE ANNOTATED SECTION 65-5-103(D)(6)?**

8

**A. Yes. They are the best estimate we have of the Tennessee jurisdiction's cost of
service.**

9

10

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11

A. Yes.

ATMOS ENERGY CORPORATION

Original Sheet No. 34.1

ARM
Annual Review Mechanism

I. Applicable

To all gas sold and transported under tariff services, excluding approved special contracts.

II. Purpose

This Annual Review Mechanism ("ARM") is implemented under the provisions of Tennessee Code Annotated Section 65-5-103(d)(6), which authorizes the Company to opt for an annual review of the Company's rates. Pursuant to this ARM and the annual filings described in section IV.A below, the Company's tariff rates (excluding approved special contract rates) shall be adjusted to provide that the Company earns the authorized return on equity established in the Company's most recent general rate case. The rate adjustments implemented under this mechanism will reflect changes in the Company's revenues, cost of service, and rate base. The ARM may be terminated or modified as provided under Tennessee Code Annotated 65-5-103(d)(6)(D).

III. Definitions

A) **Annual Filing Date** shall be the date the Company will make its annual ARM filing. The Annual Filing Date shall be no later than September 1 of each year.

B) **Historic Base Period** is defined as the twelve month period ending June 30 of each calendar year in which an Annual Filing Date occurs.

C) **Forward Looking Test Year** is defined as the twelve months beginning January 1 of each calendar year following the Annual Filing Date. The rate adjustment resulting from the annual rate review will be effective on bills rendered on and after January 1 of each year.

D) **New Matters** as referenced in this tariff refers to new issues, adjustments or ratemaking topics that would affect the ARM filing for which there is no prior determination regarding the Company by the Authority.

IV. ARM Filing

On the Annual Filing Date each year the Company shall file with the Authority schedules and supporting work papers that reflect the actual annual amounts as reflected on the books and records of the Company for the Historic Base Period as well as the projected amounts expected during the Forward Looking Test Year.

ATMOS ENERGY CORPORATION

Original Sheet No. 34.2

A. Contents of the Annual Filing. The ARM filing shall include:**Schedule 1: Cost of Service**

Summarizes the elements of cost of service, including gas cost expense, operation and maintenance expense, depreciation expense, taxes other than income taxes, return on rate base, income tax, allowance for funds used during construction ("AFUDC") and interest on customer deposits. Compares the total cost of service to revenues at present rates in order to calculate a net revenue deficiency / sufficiency.

Schedule 2: Summary of Revenues at Present Rates

Presents per book revenues for the Historic Base Period and the projected Forward Looking Test Year revenues.

Schedule 3: Cost of Gas

Presents Historic Base Period per books gas cost and the projected Forward Looking Test Year cost of gas. Includes rate making adjustments consistent with the Company's most recent general rate case.

Schedule 4: Operation and Maintenance Expenses

Presents Historic Base Period per books operation and maintenance expense, and the projected Forward Looking Test Year operation and maintenance expense. Includes rate making adjustments consistent with the Company's most recent general rate case.

Schedule 5: Taxes Other than Income

Presents Historic Base Period per books taxes other than income taxes expense, and the projected Forward Looking Test Year taxes other than income taxes expense. Includes rate making adjustments consistent with the Company's most recent general rate case.

Schedule 6: Depreciation and Amortization Expenses

Presents Historic Base Period per books depreciation and amortization expense, and the projected Forward Looking Test Year depreciation and amortization expense. Includes rate making adjustments consistent with the Company's most recent general rate case and adjustments to reflect impact of proposed depreciation rates, if any, as defined in Section IV. B. b.

ATMOS ENERGY CORPORATION

Original Sheet No. 34.3

Schedule 7: Rate Base and Return

Presents the calculation of the Base Period per books rate base, and projected Forward Looking Test Year rate base. The rate base includes original cost of plant, accumulated depreciation, construction work in progress ("CWIP"), storage gas investment, materials and supplies, cash working capital, accumulated deferred income tax ("ADIT"), customer advances, customer deposits, accumulated interest on customer deposits and deferred rate case expenses. Includes rate making adjustments consistent with the Company's most recent general rate case.

Schedule 8: Computation of State Excise and Income Taxes

Presents the calculation of state excise taxes and income taxes on the required return on rate base for the Historic Base Period and Forward Looking Test Year.

Schedule 9: Overall Cost of Capital

Presents the calculation of the overall cost of capital based on the capital structure, debt cost rates and the required rate of return on equity as defined in section IV. B. e.

Schedule 10: Rate of Return

Presents the calculation of a rate of return on rate base and a rate of return on the equity financed portion of rate base for the Base Period and the Forward Looking Test Year, with costs and revenues as presented in Schedules 2 through 9.

Schedule 11: Proof of Revenues and Calculation of Rates

Presents the forecasted billing determinants and calculation of new tariff rates by customer class and rate schedule for the Forward Looking Test Year consistent with the cost of service and net revenue deficiency / sufficiency presented in Schedule 1.

B. Revenue Requirements. In presenting data that demonstrates the Forward Looking Test Year revenue requirements:

- a. Rate Base and Cash Working Capital requirements will be reflected in a manner consistent with the Company's most recent general rate case. The Company will use the factors derived from the Lead/Lag study performed in its most recent general rate case in calculating cash working capital requirements.
- b. Depreciation expenses shall reflect the depreciation rates approved by the Authority in the Company's most recent general rate case. If and when the Company performs a new depreciation study, the new study will be filed with the Authority, and updated depreciation rates will be utilized in the next annual review under this tariff.

ATMOS ENERGY CORPORATION

Original Sheet No. 34.4

- c. Forward Looking Test Year Operating Expenses (O&M, Taxes other than Income Taxes, and Income Taxes) will be projected using methodologies consistent with the Company's most recent general rate case.
- d. The Historic Base Period data shall include actual revenues by billing component, and the Forward Looking Test Year data shall reflect adjustments to forecast revenue billing determinants based on the revenue forecasting methodologies that were used in the Company's most recent general rate case for projecting the number of customers and average customer use, unless modified in the current Annual Review Mechanism.
- e. Cost of Capital will be calculated using the ROE defined in the Company's most recent general rate case. The Company's cost of debt and capital structure will be calculated using methodologies consistent with the Company's most recent general rate case.
- f. Schedules filed pursuant to this mechanism shall reflect applicable accounting and pro forma adjustments used in the Company's most recent general rate case as well as other adjustments required to account properly for atypical, unusual, or nonrecurring events.

C. New Matters. If New Matters arise, the Company, TRA Staff, and the Consumer Advocate will endeavor to reach a resolved treatment, or if necessary, will seek a ruling from the Authority.

V. Attestation

A sworn statement shall be filed by a Company officer responsible for Tennessee Operations affirming that the filed schedules are in compliance with the provisions of this mechanism and are true and correct to the best of his/her knowledge, information and belief. No testimony in addition to such attestation in support of the proposed adjustments shall be necessary at the time of the filing.

VI. Rate Adjustment

Pursuant to the provisions of Tennessee Code Annotated 65-5-103(d)(6)(C), based upon the Forward Looking Test Year, the Company's tariff rates shall be adjusted to provide for the Company to earn the authorized return on equity established in the Company's most recent general rate case. All tariff rates shall be adjusted in proportion to the relative base revenue share of each, as approved in the Company's most recent general rate case. The Company shall file revised tariffs reflecting the new rates. The revised tariffs and new rates shall be effective for bills rendered on or after the January 1 immediately following the Annual Filing Date, except that the Company may implement the new weather normalization adjustment factors effective on October 1. Approved special contract rates shall be exempt from this ARM and shall not be adjusted hereunder.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY
CORPORATION FOR ANNUAL
REVIEW OF RATES

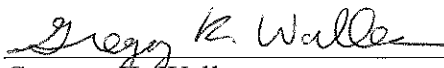
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Docket No. 14-XXXXX

VERIFICATION

STATE OF TEXAS)

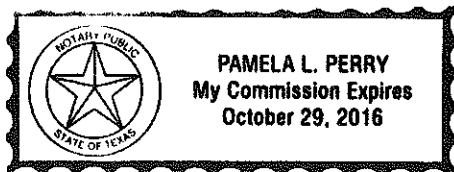
COUNTY OF DALLAS)

I, Gregory K. Waller, being first duly sworn, state that I am the Manager of Rates and Regulatory Affairs for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Testimony of Gregory K. Waller in Support of Atmos Energy Corporation's Petition and the Exhibits thereto pre-filed in this docket on the date of filing on this Petition are true and correct to the best of my knowledge, information and belief.



Gregory K. Waller

Sworn and subscribed before me this 25 day of August, 2014





Notary Public

My Commission Expires: 10-29-16