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March 10, 2015

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**VIA E-MAIL AND HAND DELIVERY**

[sharla.Dillon@tn.gov](mailto:sharla.Dillon@tn.gov)

RE: Atmos Energy General Rate Case and Petition to Adopt Annual Review  
Mechanism and ARM Tariff, TRA Docket No. 14-00146

Dear Ms. Dillon:

Enclosed are the original and four copies of Atmos Energy Corporation's Response to the Consumer Advocate's Informal Discovery Request Set Number 5. This response includes two attachments to Question No. 1-86, both of which are **CONFIDENTIAL** and are being provided in hard copy and on CD in a sealed envelope. They are not to be posted the Authority's website.

Best regards.

Sincerely,



A. Scott Ross

Sharla Dillon, Dockets Manager  
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March 10, 2015

ASR:prd

Enclosures

cc: Wayne Irvin (by email)

**Docket No. 14-00146**  
**Atmos Energy Corporation, Tennessee Division**  
**CAPD DR Set No. 5**  
**Question No. 1-86 (5-01 Informal)**  
**Page 1 of 7**

**REQUEST:**

Please provide the data requested in the Consumer Advocate's First Discovery Request No. 9, subrequests (a) and (b). With respect to subrequest (b), please provide unredacted copies.

**RESPONSE:**

- a) Please see Confidential Attachment 1. The responsive information in Attachment 1 is Confidential pursuant to the terms of the Protective Order in this matter and is being produced in a sealed envelope marked Confidential, to be filed under seal. Pursuant to the parties' discussions Atmos Energy will receive advance notice of at least one working day prior to any contact with representatives of these companies. Separately, Atmos Energy requests that notes and workpapers concerning such communications be retained and produced.
- b) Please see Confidential Attachment 2 for unredacted copies. The responsive information in Attachment 2 is Confidential pursuant to the terms of the Protective Order in this matter and is being produced in a sealed envelope marked Confidential, to be filed under seal.

**ATTACHMENTS:**

ATTACHMENT 1 - Atmos Energy Corporation, CAPD\_1-086\_Att1 - Customer Contact Info (CONFIDENTIAL).xlsx, 1 Page.

ATTACHMENT 2 - Atmos Energy Corporation, CAPD\_1-086\_Att2 - Correspondence (CONFIDENTIAL).pdf, 10 Pages.

Respondent: Patricia Childers

**Docket No. 14-00146**  
**Atmos Energy Corporation, Tennessee Division**  
**CAPD DR Set No. 5**  
**Question No. 1-87 (5-02 Informal)**  
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**REQUEST:**

In view of the reinstatement of the annual review mechanism ("ARM") part of Atmos' petition, please state and explain fully the standards and guidelines that Atmos believes should be applied in the context of and in connection with the potential use and implementation of Tenn. Code Ann. § 65-5-103(d)(7) in the context of an annual rate review mechanism under part two of Atmos' petition. Please explain fully each difference Atmos believes to exist between the standard(s) under Tenn. Code Ann. § 65-5-103(d)(6) and Tenn. Code Ann. § 65-5-103(d)(7) in the context of an annual rate review mechanism.

**RESPONSE:**

Atmos Energy respectfully submits that the preface to this request (preceding the initial comma) is an incomplete statement of the procedure adopted in this case with the approval of the hearing officer in order to comply with the Authority's interpretation of the 120 day completion deadline imposed under Tenn. Code Ann. § 65-5-103(d)(1)(B). Atmos Energy respectfully incorporates by reference as if fully restated herein its Notice of Withdrawal Without Prejudice for Later Reinstatement of Certain Portions of Petition and ARM Tariff (filed January 13, 2015) and its Reinstatement of Certain Portions of Petition and ARM Tariff Previously Withdrawn Without Prejudice for Later Reinstatement (filed February 18, 2015). Subject to and without waiving this objection, Atmos Energy responds that Tenn. Code Ann. § 65-5-103(d)(7) states: "(7) In addition to the alternative regulatory methods described in this subsection (d), a public utility may opt to file for other alternative regulatory methods. Upon a filing by a public utility for an alternative method not prescribed, the authority is empowered to adopt policies or procedures, that would permit a more timely review and revisions of the rates, tolls, fares, charges, schedules, classifications or rate structures of public utilities, and that would further streamline the regulatory process and reduce the cost and time associated with the ratemaking processes in § 65-5-101 and subsection (a)." The statute does not impose any further standards applicable to subsection (d)(7), and the Authority has not adopted any by rulemaking or otherwise. Atmos Energy maintains that all of the relief requested in its Petition is statutorily authorized under both subsection (d)(6) and subsection (d)(7), is in the public interest and should be granted. Atmos Energy further incorporates by reference its Petition in this matter.

Respondent: Patricia Childers

**Docket No. 14-00146**  
**Atmos Energy Corporation, Tennessee Division**  
**CAPD DR Set No. 5**  
**Question No. 1-88 (5-03 Informal)**  
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**REQUEST:**

- (a) In view of the reinstatement of the ARM part of Atmos' petition, please provide a detailed narrative description - beginning with each specific original source in Atmos' books and records or budget approved by its board of directors and including without limitation each calculation, assumption, means of estimation, analysis, and rationale - for each methodology that Atmos is requesting the Authority to adopt. If the specific source reference in the response to this request is Atmos' budget, please provide a detailed narrative description as to each calculation, assumption, means of estimation, analysis, and rationale used in arriving at or that results in the amount set forth in such specific original source.
- (b) Please provide a detailed narrative description for the methodology or mechanism that Atmos proposes to use to resolve disputes concerning (i) regulatory accounting and related matters that arise after the adoption of methodologies pursuant to the general rate case part of the petition and (ii) future disputes that arise between the parties to an annual review proceeding in connection with the annual review process.

**RESPONSE:**

- a) Atmos Energy would respectfully show that the prefatory comment to this request, preceding the comma, is incomplete. Atmos Energy respectfully incorporates by reference its initial Petition in this matter, which is identical in all respects to its current Petition, the parties' joint agreed proposed Procedural Schedule, which the parties jointly submitted and asked the hearing officer to enter at the initial status conference in this matter and which jointly requested a May 11 hearing addressing all issues raised in the Atmos Energy Petition, the hearing transcript from the January 7, 2015, initial status conference in this matter, as well as the Company's Notice Of Withdrawal Without Prejudice For Later Reinstatement Of Certain Portions Of Petition And Arm Tariff (filed January 13, 2015), and the Company's Reinstatement Of Certain Portions Of Petition And Arm Tariff Previously Withdrawn Without Prejudice For Later Reinstatement (filed February 18, 2015). These items are incorporated by reference as if fully restated herein. Because the Company's current Petition is in all respects identical to the one originally filed by the Company on November 25, 2014, the methodologies, including each specific original source and including without limitation each calculation, assumption, means of estimation, analysis, and rationale that the Company is requesting the Authority to adopt, are documented in the testimony, exhibits and supporting workpapers and relied-upon documents provided at the time of the original filing and/or through the submission of the Company's MFR and discovery responses, all of which are

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**CAPD DR Set No. 5**  
**Question No. 1-88 (5-03 Informal)**  
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incorporated by reference in response. The source for all historically booked financial and volume information, as well as the Company's O&M, Other Tax and capital expenditure budget, is the Company's general ledger. The Company's approved operating budget is loaded into the Company's general ledger at the end of the budgeting process each year.

The Company, at the time of the filing, provided an Excel-based revenue requirement model that had formulas intact and was linked to workpapers and relied-upon files. The rates requested by the Company in this matter are derived, and calculated within, that revenue requirement model. The Schedules 1-11 and supporting workpapers from the model are included in the Company's petition as Exhibits GKW-1 and PJC-1. The model, with its Schedules, supporting workpapers and relied upon files, contains each source and calculation required to calculate the Company's revenue requirement. To the extent an external source is required (weather information for example), it is discussed in testimony (specific citations appear below). The assumptions, means of estimation, analysis, and rationale employed by the Company in constructing the revenue requirement model and that the Company is requesting the Authority to adopt, are also documented in pre-filed testimony (specific citations appear below). Due to the complexity of a comprehensive revenue requirement calculation, it is not practical to address narratively the specific original source, calculation, assumption, means of estimation, analysis, and rationale of every number of every cell of the revenue requirement model and supporting workpapers and relied upon files. To the extent there are any specific pieces of data or calculations not addressed narratively in testimony, the methodology, together with the data and calculations provided in the revenue requirement model and supporting workpapers and relied upon files should be considered to be consistent with the methodology described throughout testimony and included within the realm of what the Company is requesting the Authority to adopt. Citations to the narrative descriptions of specific methodologies, sources, calculations, assumptions, means of estimation, analysis, and rationale by ratemaking topic follow:

Billing Determinants: Testimony of Patricia Childers, page 5, line 7 through page 7, line 22.

O&M: Testimony of Greg Waller, page 5, line 20 through page 10, line 9.

Taxes, Other than Income Taxes: Testimony of Greg Waller, page 10, lines 10-20.

Depreciation Expense: Testimony of Greg Waller, page 10, line 21 through page 12, line 5 AND page 19, line 18 through page 20, line 13.

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Rate Base: Testimony of Greg Waller, page 12, line 6 through page 17, line 5.

Description of Budgeting Process: Testimony of Greg Waller, page 20, line 19 through page 29, line 22.

Capital Structure and Cost of Debt: Testimony of Joe Christian, page 13, line 16 through page 15, line 14.

Cash Working Capital: Testimony of Joe Christian, page 3, line 17 through page 13, line 14.

Cost Allocations: Testimony of Jason Schneider, page 11, line 20 through page 13, line 9 and Exhibit JLS-1.

- b) The Company's proposed ARM tariff, attached to the testimony of Greg Waller, references "New Matters" in section IV. C. which are also discussed in his testimony on page 20, lines 14-17. When and if New Matters arise in the context of an annual rate review, the Company would plan to work with the Consumer Advocate to address them and jointly propose a method of ratemaking treatment that is agreeable to both parties. To the extent agreement cannot be reached, the issue would be brought before the Authority for a ruling. Once a joint stipulation is approved or ruling otherwise established on the issue, the Company would agree to file subsequent annual reviews consistent with that outcome.

Respondents: Greg Waller, Patricia Childers, Joe Christian and Jason Schneider

**Docket No. 14-00146**  
**Atmos Energy Corporation, Tennessee Division**  
**CAPD DR Set No. 5**  
**Question No. 1-89 (5-04 Informal)**  
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**REQUEST:**

In view of the reinstatement of the ARM part of Atmos' petition, please provide Atmos' reasons and rationale, explaining each fully, for seeking to opt in to an annual review mechanism that would set rates for at least a substantial part of the period for which the general rate case purports to set rates (by means of the attrition year). Please explain why the initial annual review, that Atmos has indicated that it would file on or about September 1 of this year, would not result in virtually identical rates being set, to those that had just been set in the general rate case with respect to the attrition year, and, if Atmos believes the rates would not be virtually identical, please explain fully and in detail the amounts, sources, and all calculations related to any and all differences. Please provide a pro forma reconciliation of the amounts proposed in the general rate case to the amounts expected to be proposed in the initial annual review filing.

**RESPONSE:**

Atmos Energy would respectfully show that the prefatory comment to this request, preceding the comma, is incomplete. Atmos Energy respectfully incorporates by reference its initial Petition in this matter, which is identical in all respects to its current Petition, the parties' joint agreed proposed Procedural Schedule, which the parties jointly submitted and asked the hearing officer to enter at the initial status conference in this matter and which jointly requested a May 11 hearing addressing all issues raised in the Atmos Energy Petition, the hearing transcript from the January 7, 2015, initial status conference in this matter, as well as the Company's Notice Of Withdrawal Without Prejudice For Later Reinstatement Of Certain Portions Of Petition And Arm Tariff (filed January 13, 2015), and the Company's Reinstatement Of Certain Portions Of Petition And Arm Tariff Previously Withdrawn Without Prejudice For Later Reinstatement (filed February 18, 2015). These items are incorporated by reference as if fully restated herein.

It was not the Company's original intention to litigate a rate case in which the attrition year overlaps with the proposed timing of the annual review. As explained in the Company's Petition in this matter, the rate case portion of the current docket (Docket 14-00146) was required following the Authority's dismissal of Docket No. 14-00081. The rationale for the timing of the annual review in that Docket was stated in the testimony of Greg Waller on page 7 line 19 through page 8 line 6. In its current two-part petition, the Company proposes to implement the annual rate review on the same annual timeline that it proposed in Docket 14-00081. The rationale for the timing of the annual review currently proposed is exactly the same rationale that Mr. Waller testified to in Docket No. 14-00081 and is repeated in his current testimony in Docket No. 14-00146 on page 19 lines 7-17 and copied here:



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**Question No. 1-89 (5-04 Informal)**  
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Q. WHY DID THE COMPANY CHOOSE A JUNE ENDING HISTORIC BASE PERIOD?

A. The Company selected the June ending Historic Base Period and September 1 Annual Filing Date for its annual mechanism because those dates allow the Forward Looking Test Year to be built with less emphasis on inflation factors. The methodology for forecasting a Forward Looking Test Year relies on budgeted data to the extent it is available and inflation factors when appropriate budget data are not available. The selection of the June ending Historic Base Period and September 1 Annual Filing Date ensures that the first nine months of the Forward Looking Test Year can rely on the Company's recently completed budget without inflation built into the forecast.

The addition of a newly litigated case as a prerequisite to the annual review resulted in an attrition year that is not synced up with the Company's proposed annual review timing. The Company, therefore, was faced with the decision to propose the first annual review such that the result was either a 5 month attrition year overlap, as proposed, or a 7 month gap if the Company were to wait until September 1, 2016 to file its initial annual review. Had the Company proposed the scenario with the 7 month gap, it would experience regulatory lag on 7 months of investment. The investments made by the Company between June 1, 2016 and December 31, 2016, under that scenario, would be partially depreciated by the time the Company would begin earning a return on them. Regulatory lag is a primary hindrance to the Company not achieving its authorized fair rate of return.

The first annual filing would result in different rates when compared to the rate case portion of the current docket driven primarily by the facts that:

- The Company's cumulative net investment will have grown when compared to the attrition year ending May 31, 2016; and
- The first annual rate review would be driven by the Company's detailed fiscal year 2016 budget for capital expenditures, O&M, and Other Taxes whereas the current docket's attrition year is based on the Company's detailed fiscal 2015 budget.

Because the Company has not yet prepared its 2016 budget, no pro-forma reconciliation can be performed at this time.

Respondents: Patricia Childers and Greg Waller