

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

February 23, 2016

IN RE:

ATMOS ENERGY PETITION TO CHANGE
DEPRECIATION RATES PURSUANT TO ITS
APPROVED ANNUAL REVIEW MECHANISM

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DOCKET NO.
15-00089

ORDER APPROVING DEPRECIATION RATES

This matter came before Vice Chairman David F. Jones, Director Kenneth C. Hill and Director Robin Morrison of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on December 14, 2015 to consider the *Notice of Filing Depreciation Study and Request for Approval of New Depreciation Rates* (“*Petition*”) filed by Atmos Energy Corporation (“Atmos” or the “Company”) on September 22, 2015.

BACKGROUND

In TRA Docket No. 14-00146¹, the Authority approved a settlement agreement presented by the parties. Pursuant to the settlement agreement, Atmos was granted a rate increase of \$711,472 annually and approval of its proposed Annual Review Mechanism (“ARM”).² Under this mechanism, Atmos’ earnings are reviewed annually in order to adjust rates as needed to allow Atmos to earn its authorized return on equity of 9.80%, which was established by the Authority.

¹ See *In re: Petition of Atmos Energy Corporation for a General Rate Increase Under T.C.A. § 65-5-103(a) and Adoption of an Annual Rate Review Mechanism (“ARM”) Under T.C.A. § 65-5-103(d)(6)*, Docket No. 14-00146 (November 25, 2014).

² See *In re: Petition of Atmos Energy Corporation for a General Rate Increase Under T.C.A. § 65-5-103(a) and Adoption of an Annual Rate Review Mechanism (“ARM”) Under T.C.A. § 65-5-103(d)(6)*, Docket No. 14-00146, *Order Approving Settlement*, p. 8 (November 4, 2015).

This review includes a true-up mechanism to reconcile the Company's budgets and projections with actual results, thus allowing Atmos to recover its reasonably-and-prudently-incurred expenses and costs of capital investment each year without filing a formal rate case.

PETITION

Pursuant to the provisions implementing the ARM, Atmos filed this *Petition* on September 22, 2015, requesting approval of new depreciation rates generated from its latest depreciation study. If approved, the proposed depreciation rates will be included in Atmos' initial filing under its ARM which is due February 1, 2016. According to the *Petition*, the tariff implementing the ARM provides as follows:

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. Following any appropriate discovery and rebuttal, and conditioned upon approval by the Authority of new rates, the Company shall calculate depreciation expenses using the newly approved rates in its subsequent ARM Filing.³

In support of the proposed depreciation study and resulting rates, Atmos presented the testimony of Dane A. Watson.⁴ Mr. Watson is a Partner of Alliance Consulting Group and testifies that the depreciation study "reflects the most recent experience and future expectations for life and net salvage characteristics for assets in Atmos Energy's Tennessee, KY Mid-States General Office, and Shared Services Unit as of September 30, 2014."⁵ Mr. Watson testifies that Atmos' overall depreciation expense contains depreciation for both Tennessee Direct assets (assets used 100% in Tennessee) and assets shared with other states (allocated depreciation).

In his pre-filed testimony, Mr. Watson provides an overview of the depreciation study explaining that there are three classes of depreciable property: Transmission Plant, Distribution

³ *Petition*, p. 1 (September 22, 2015).

⁴ Mr. Watson has met the national standards for depreciation professionals and as such is a Certified Depreciation Professional ("CDP") by the Society of Depreciation Professionals.

⁵ Dane A. Watson, Pre-Filed Direct Testimony, p. 5 (September 22, 2015).

Plant and General Plant property.⁶ He testifies that the depreciation study was conducted in four phases: Data Collection, Analysis, Evaluation, and Calculation.⁷ First, he collected historical information to be used in the study. Then, he analyzed the data to determine the appropriate life and net salvage percentage for each category. In the third phase, he evaluated the data based on input from personnel that are responsible for the installation and maintenance of the assets. Lastly, he calculated the depreciation rate for each Tennessee Direct asset using the straight-line method, Average Life Group (“ALG”) and remaining-life technique systems, which are consistent with the depreciation rates currently used by Atmos.⁸

In addition to receiving depreciation expense for its Tennessee Direct assets, Atmos’ Tennessee operations also receive an allocated portion of depreciation expenses related to assets shared with other states. Examples of such assets include office buildings, leasehold improvements, office furniture, communications equipment, transportation equipment, computer software and hardware, etc.⁹ The depreciation expense for these items is allocated to each Atmos entity it supports.¹⁰ In support of these allocations and associated depreciation, Mr. Watson provides additional information regarding the KY-Mid States General Office and Shared Services Unit (“SSU”) depreciation studies, which have been filed in Colorado and Kansas with intentions to file in each of the jurisdictions as required by those states. Mr. Watson concludes that “[t]he proposed unallocated annual depreciation expense for Atmos Energy SSU is approximately \$21.8 million per year.”¹¹

On November 30, 2015, the Consumer Protection and Advocate Division of the Office of the Attorney General (“Consumer Advocate”) filed a letter of its intent not to intervene in this

⁶ *Id.* at 5-6.

⁷ *Id.* at 5.

⁸ *Id.* at 5-6.

⁹ *Id.* at 9-10.

¹⁰ *Id.* at 10.

¹¹ *Id.*

docket and to express its concern that “any methodology adopted or adjustment to depreciation rates approved in TRA Docket 15-00089 would not be useable in connection with or bind the parties in an annual rate review under TRA Docket 14-00146.”¹² Atmos filed a response on December 2, 2015 stating that it disagrees with the Consumer Advocate and that “[t]he Settlement Agreement and the approved ARM Tariff are binding and enforceable. They do not lose their force or effect if some future ARM filing may be given a different docket number other than 14-00146.”¹³

FINDINGS AND CONCLUSIONS

At a regularly scheduled Authority Conference held on December 14, 2015, the panel considered the *Petition* and made the following findings and conclusions. First, the panel found that Atmos’ filing for revised depreciation rates was made in accordance with the terms set forth in its approved tariff under its ARM, which was approved by the Authority in Docket No. 14-00146. Further, upon review of the proposed depreciation rates and the study supporting these changes, the panel found that the proposed depreciation rates are just and reasonable for inclusion in Atmos’ ARM going forward. For the foregoing reasons, the panel voted unanimously to approve the *Petition* as filed.

IT IS THEREFORE ORDERED THAT:

The *Notice of Filing Depreciation Study and Request for Approval of New Depreciation Rates* filed by Atmos Energy Corporation on September 22, 2015 is approved as filed.

Vice Chairman David F. Jones, Director Kenneth C. Hill and Director Robin Morrison concur.

ATTEST:



Earl R. Taylor, Executive Director

¹² *Notice of Intent not to Intervene*, p. 1 (November 30, 2015).

¹³ *Atmos Energy Response to Consumer Advocate November 30, 2015 Correspondence*, p. 4 (December 2, 2015).