

**IN THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE**

IN RE:)
)
ATMOS ENERGY CORPORATION)
ANNUAL RECONCILIATION OF) **DOCKET NO. 16-00105**
ANNUAL REVIEW MECHANISM)
)

**SECOND DISCOVERY REQUEST
OF THE CONSUMER PROTECTION AND ADVOCATE DIVISION
TO ATMOS ENERGY CORPORATION**

To: A. Scott Ross, Esq.
c/o Atmos Energy Corporation
Neal & Harwell, PLC
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150 Fourth Avenue North
Nashville, TN 37219-2498

Mr. Mark Martin
VP, Regulatory Affairs
Atmos Energy Corporation
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This Second Discovery Request is hereby served upon Atmos Energy Corporation ("Company" or "Atmos Energy"), pursuant to Rules 26, 33, 34 and 36 of the Tennessee Rules of Civil Procedure and Tenn. Comp. R. & Reg. 1220-1-2-.11. The Consumer Protection and Advocate Division of the Attorney General's Office ("Consumer Advocate" or "CPAD" or, as formerly known as, "CAPD") requests that full and complete responses be provided pursuant to the Tennessee Rules of Civil Procedure. The responses are to be produced at the Office of the Tennessee Attorney

General and Reporter, Consumer Protection and Advocate Division, 315 Deaderick Street, 20th Floor, Nashville, Tennessee 37243, c/o Wayne M. Irvin, on or before 4:00 p.m. (CDT), November 1, 2016, or at such other time as may be ordered by the Hearing Officer in the adoption, approval, or amendment of a procedural schedule in this TRA Docket.

PRELIMINARY MATTERS AND DEFINITIONS

These additional discovery requests incorporate the same Preliminary Matters and Definitions set forth in the First Discovery Request of the Consumer Protection and Advocate Division to Atmos Energy Corporation (“First Discovery Request” or “CPAD DR”), and are to be considered continuing in nature, and are to be supplemented from time to time as information is received by Atmos Energy and any Atmos Energy affiliate which would make a prior response inaccurate, incomplete, or incorrect.

SECOND DISCOVERY REQUESTS

1. Refer to the “Intercompany Leased Property 2016 Jun15-May16” spreadsheet that was provided with the Company’s filing. Specifically refer to the “212 Bal” and “232 Bal” tabs of this spreadsheet. Both of these spreadsheet tabs appear to exclude detail for December 2015. Please update this spreadsheet to include December 2015 data.

RESPONSE:

2. Refer to the “Intercompany Leased Property 2016 Jun15-May16” spreadsheet that was provided with the Company’s filing. Please provide the source and support for the “212 Bal”, “212 Act”, “232 Bal”, “232 Act”, “212 Bal Gap”, “232 Bal Gap”, “212 A Gap”, and “232 A Gap” tabs of this spreadsheet.

RESPONSE:

3. Refer to the “Intercompany Leased Property 2016 Jun15-May16” spreadsheet that was provided with the Company’s filing. Specifically refer to the “232 Bal” and “232 Bal Gap” tabs of this spreadsheet. Please explain and provide the journal entries associated with the increase in “NG-Storage Plant” (Subaccount 10003) from \$176,262 in February 2015 to \$824,537 in June 2016.

RESPONSE:

4. Refer to the “Attrition Period Trial Balances” spreadsheet that was provided with the Company’s filing. Specifically refer to the “WP 7-2” tab of this spreadsheet and refer to “Account 2520 – Customer Advances for Construction” for the Tennessee Division. Please provide the details of the specific contents making up Customer Advances and the anticipated dates for when construction from these advances will take place.

RESPONSE:

5. Refer to the “Attrition Period Trial Balances” spreadsheet that was provided with the Company’s filing. Specifically refer to the “WP 7-2” tab of this spreadsheet and refer to “Account 2370 – Interest on Customer Deposits” for the Tennessee Division. Please provide a copy of the February 2015 and February 2016 journal entries to clear out Interest on Customer Deposits. Also, explain how this interest is credited back to customers.

RESPONSE:

6. Refer to the Company’s Excel attachment that was provided in response to CPAD DR 1-9. The Company lists a total \$14,136,801 of incentive comp for sub account 07542 in Division 002 in cell G8 on this spreadsheet. Of this amount, \$4,273,199 is identified as capitalized. Identify the schedule or schedules where the company has removed these items from rate base

as a disallowable amount. In addition, identify any capitalized incentive compensation that was included in the previous rate case from Docket 14-00146.

RESPONSE:

7. Refer to the Company's Excel attachment that was provided in response to CPAD DR 1-9. Specifically refer to the "SSU CAP and Alloc" tab of this spreadsheet. Please provide the source and support for the hard coded numbers contained in this spreadsheet.

RESPONSE:

8. Refer to the Company's Excel attachment that was provided in response to CPAD DR 1-9 regarding incentive compensation. The accounting treatment for incentive compensation would normally be to expense it in the current period because it is not directly related to any particular construction project. As such, please explain the Company's rationale for capitalizing a portion of incentive compensation.

RESPONSE:

9. Refer to the Company's Excel attachment that was provided in response to CPAD DR 1-9 regarding incentive compensation. The accounting treatment for incentive compensation would normally be to expense it in the current period because it is not directly related to any particular construction project. As such, please provide a copy of the Company's accounting policy regarding capitalizing incentive compensation.

RESPONSE:

10. Refer to the "2015 Revenue Requirement Schedules – True-up" spreadsheet that was included with the Company's filing. Specifically refer to the "WP 4-1" tab of this spreadsheet. Please explain and provide details for the large increase of \$1,382,486 in outside services for Division 93.

RESPONSE:

11. Refer to the Direct Testimony of Gregory K. Waller (“Waller Testimony”) that was included with the Company’s filing. Specifically, refer to page 11 of this testimony where he discusses the changes in O&M expenditures for outside services since the rate case. Does the Company expect the attrition period expenses for Outside Services to now represent a new consistent going-level amount for the future, or do you expect that these costs will revert back to their previous levels?

RESPONSE:

12. Refer to the Waller Testimony on pages 11 and 12, and specifically to the study prepared by Willis Towers Watson to which Mr. Waller refers. Provide a copy of the Willis Towers Watson study and related document recommending the pension cash contribution of \$38,000,000 and the adjustments referenced by Mr. Waller.

RESPONSE:

13. Refer to the company’s spreadsheet “Attrition Period Trial Balances” as filed in this docket. Next, refer to tab “WP 4-1 Disallowed” of this spreadsheet. Now refer to cell K37 which lists a total of \$1,340 for subaccounts 05416 and 05412, respectively Club Dues – Nondeductible and Spousal & Dependent Travel. It appears that the Company has not included subaccount 05416 “Club Dues – Nondeductible” in this calculation. Therefore, please provide the following information:
 - (a) Provide the reasons for this exclusion.
 - (b) Explain why the total listed in cell S278 located in tab “WP 4-1 093” of the spreadsheet “Attrition Period Trial Balances” was not included in the total located in cell K37 of “WP 4-1 Disallowed” as discussed earlier in this request.

- (c) Explain whether the company considers the total amount of Non-Deductible Dues and Spousal Travel for Division 093 to be \$1,340 or \$6,609?
- (d) If the Company considers the calculation of Division 093 disallowables (as it relates to subaccounts 05416 and 05412) to now be in error, please provide a complete updated filing calculation.

RESPONSE:

- 14. With reference to TRA Dockets 14-00146, 16-00013, and 16-00105 and, specifically, the treatment of accumulated deferred income tax (“ADIT”) by the Company in those dockets, provide any Internal Revenue Service (“IRS”) private letter ruling, revenue ruling, or other guidance (whether formal or informal) that has been issued by the IRS or obtained by the Company related to ADIT since the issuance of the TRA’s written order in Docket 14-00146. Further, describe in detail with specificity any communication between the Company and the IRS since the issuance of the TRA’s written order in Docket 14-00146. With respect to any ruling, guidance, or communication described in this request, provide all documents related to any such ruling, guidance, or communication.

RESPONSE:

- 15. Admit or Deny that the annual review mechanism established in TRA Docket 14-00146 provides for a guaranteed means of the Company recovering its cost of service, including on capital investment and of depreciation expense and O&M expenses. If the Company denies, please state in detail with specificity the rationale, reasons, and support for such denial, and provide any document(s) in support of the Company’s denial.

RESPONSE:

16. Explain fully and with specificity all revenue-related risks that the Company has retained upon the implementation of the annual review mechanism in Docket 14-00146 with respect to the revenue requirement described in that Docket and the implementation of that mechanism.

RESPONSE:

17. Admit or Deny that Tenn. Code Ann. § 65-5-103(d)(6)(D)(iii) is the only statutory basis by which the annual review mechanism agreed by the parties in the Settlement Agreement and approved by the TRA in the 14-00146 Order may be modified. If the Company denies, please state in detail with specificity the rationale, reasons, and support for such denial, and provide any document(s) in support of the Company's denial.

RESPONSE:

18. Admit or Deny that the TRA may disregard, effectively remove, or modify in any way at any time other provisions of the Settlement Agreement or 14-00146 Order without complying with Tenn. Code Ann. § 65-5-103(d)(6)(D)(iii). If the Company denies, please state in detail with specificity the rationale, reasons, and support for such denial, and provide any document(s) in support of the Company's denial.

RESPONSE:

19. Admit or Deny that a consequence of the TRA's action in placing the Annual Reconciliation of Annual Review Mechanism (as put into Docket 16-00105 by the TRA) is that the methodologies that were approved in Docket 14-00146 are not usable in this Docket 16-00105. If the Company denies, please state in detail with specificity the rationale, reasons, and support for such denial, and provide any document(s) in support of the Company's denial.

RESPONSE:

20. Admit or Deny that a consequence of placing of the Annual Reconciliation of Annual Review Mechanism (as placed into Docket 16-00105 by the TRA) and the apparent disregard of the parties' agreement in Section 22 of the Settlement Agreement means that the TRA may disregard, effectively remove, or modify in any way at any time any other provision of the Settlement Agreement and the 14-00146 Order. If the Company denies, please state in detail with specificity the rationale, reasons, and support for such denial, and provide any document(s) in support of the Company's denial.

RESPONSE:

21. Admit or Deny that the TRA may disregard, effectively remove, or modify in any way at any time the Weather Normalization methodology as set forth in the Settlement Agreement in the calculations in the Annual Reconciliation of Annual Review Mechanism without due process. If the Company denies, please state in detail with specificity the rationale, reasons, and support for such denial, and provide any document(s) in support of the Company's denial.

RESPONSE:

22. Admit or Deny that the TRA may disregard, effectively remove, or modify in any way at any time the methodologies concerning accumulated deferred income tax as set forth in the Settlement Agreement or 14-00146 Order. If the Company denies, please state in detail with specificity the rationale, reasons, and support for such denial, and provide any document(s) in support of the Company's denial.

RESPONSE:

23. Admit or Deny that the TRA may include all or any part of the Company's percentage of savings derived from the Company's performance based rate making mechanism (as currently being implemented and that is currently under review in Docket 16-00028) in the additional

revenues needed to satisfy the Company's revenue requirement in this Annual Reconciliation of Annual Review Mechanism. If the Company denies, please state in detail with specificity the rationale, reasons, and support for such denial, and provide any document(s) in support of the Company's denial.

RESPONSE:

24. Refer to the Consumer Advocate's request in and the Company's response to CPAD DR 1-21. Explain in detail and with specificity how the audit of the Company's books in accordance with generally accepted accounting principles by Ernst and Young provides assurance as to the prudence, as that term is customarily defined and used in rate making contexts, of the amounts capitalized or expended that are the subject of Atmos' Annual Reconciliation of Annual Review Mechanism. In the Company's response, please provide a clear and unambiguous definition and explanation of the standards and principles by which the Company measures and/or assesses prudence and, in addition, how the audit of the Company's books by Ernst and Young satisfies those standards and principles.

RESPONSE:

25. Refer to the Company's response to CPAD DR 1-23, and in particular the references to the testimony of Greg Waller in Docket 14-00146 on pages 20-34, and to the testimony of Jason Schneider in the same docket. Provide any document demonstrating a review and/or approval by the Company's Board of Directors and/or any Company officer or other senior management of the specific amounts capitalized or expended that are the subject of Atmos' Annual Reconciliation of Annual Review Mechanism. If no document exists demonstrating a review by the Company's Board of Directors and/or any Company officer or other senior management of the specific amounts capitalized or expended that are the subject of Atmos'

Annual Reconciliation of Annual Review Mechanism, provide all documents prepared or approved by any level of management within the Company demonstrating a review of such specific amounts.

RESPONSE:

26. Refer to the Company's response to CPAD DR 1-23, and in particular the references to the testimony of Greg Waller in Docket 14-00146 on pages 20-34, and to the testimony of Jason Schneider in the same docket. Explain fully and with specificity the origin of the amounts that led to the resulting budget, i.e., do the amounts originate in the Company's Business Planning and Analysis Department? And, if so, explain fully and with specificity the basis and extent of the involvement of Company operations personnel in vetting and modifying the changes proposed by the Company's Business Planning and Analysis Department. Also, in the Company's response, provide all documents received or used by the Company's Business Planning and Analysis Department in formulating the Company's budget as it relates directly or indirectly to Tennessee.

RESPONSE:

27. Provide a copy of the Company's ethics policy or policies and a description of the mechanisms that the Company uses to assure compliance with any such policy.

RESPONSE:

28. Identify the witness or other individual who is responsible (and will respond to additional questions) for each response to each of the First Discovery Requests and each of these Second Discovery Requests.

RESPONSE:

RESPECTFULLY SUBMITTED,



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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

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This the 24th day of October, 2016.



Wayne M. Irvin