

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:

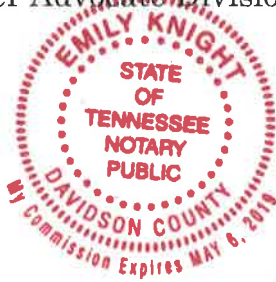
PETITION OF ATMOS ENERGY
CORPORATION ANNUAL
RECONCILIATION OF ANNUAL
RATE REVIEW MECHANISM

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Docket No. 17-00091

AFFIDAVIT

I, William H. Novak, CPA, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.




WILLIAM H. NOVAK

Sworn to and subscribed before me this 4th day of Dec., 2017.


NOTARY PUBLIC

My commission expires: May 6, 2019

TABLE OF CONTENTS

I.	INCOME TAX RECONCILIATION	10
II.	RATE BASE ALLOCATION METHODOLOGY	20
III.	VIRGINIA GAS STORAGE ALLOCATION METHODOLOGY	23
IV.	AE/AM & ALGN ASSET CLASSIFICATIONS	25
V.	PENSION EXPENSE	27
VI.	NET OPERATING LOSS ALLOCATION METHODOLOGY	29

ATTACHMENTS

Attachment WHN-1	William H. Novak Vitae
Attachment WHN-2	CPAD Exhibit
Attachment WHN-3	Calculation of Return on Equity

1 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND***
2 ***OCCUPATION FOR THE RECORD.***

3 ***A1.*** My name is William H. Novak. My business address is 19 Morning Arbor Place,
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility
5 consulting and expert witness services company.¹
6

7 ***Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***
8 ***PROFESSIONAL EXPERIENCE.***

9 ***A2.*** A detailed description of my educational and professional background is provided
10 in Attachment WHN-1 to my testimony. Briefly, I have both a Bachelor's degree
11 in Business Administration with a major in Accounting, and a Master's degree in
12 Business Administration from Middle Tennessee State University. I am a
13 Certified Management Accountant, and am also licensed to practice as a Certified
14 Public Accountant.
15

16 My work experience has centered on regulated utilities for over 35 years. Before
17 establishing WHN Consulting, I was Chief of the Energy & Water Division of the
18 Tennessee Public Utility Commission (the Commission) where I had either
19 presented testimony or advised the Commission on a host of regulatory issues for
20 over 19 years. In addition, I was previously the Director of Rates & Regulatory
21 Analysis for two years with Atlanta Gas Light Company, a natural gas
22 distribution utility with operations in Georgia and Tennessee. I also served for

¹ State of Tennessee, Registered Accounting Firm ID 3682.

1 two years as the Vice President of Regulatory Compliance for Sequent Energy
2 Management, a natural gas trading and optimization entity in Texas, where I was
3 responsible for ensuring the firm's compliance with state and federal regulatory
4 requirements.

5
6 In 2004, I established WHN Consulting as a utility consulting and expert witness
7 services company. Since 2004 WHN Consulting has provided testimony or
8 consulting services to state public utility commissions and state consumer
9 advocates in at least ten state jurisdictions as shown in Attachment WHN-1.

10
11 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?***

12 ***A3.*** I am testifying on behalf of the Consumer Protection and Advocate Division
13 (Consumer Advocate) of the Tennessee Attorney General's Office.

14
15 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS DOCKETS***
16 ***REGARDING ATMOS ENERGY CORPORATION?***

17 ***A4.*** Yes. I've presented testimony in TPUC Docket Nos. U-82-7211, U-83-7277, U-
18 84-7333, U-86-7442, 89-10017, 92-02987, 05-00258, 07-00105 12-00064 and 14-
19 00146 concerning cases involving either Atmos Energy Corporation (Atmos or
20 Company) or its predecessor companies as well as dockets for other generic tariff
21 and rulemaking matters. In addition, I previously presented testimony concerning
22 Atmos' Annual Reconciliation Mechanism (ARM) tariff that is the subject of this
23 proceeding in TPUC Docket Nos. 14-00146, 16-00013, 16-00105 and 17-00012.

1

2 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
3 ***PROCEEDING?***

4 ***A5.*** My testimony will address several issues and concerns with respect to Atmos'
5 proposed ARM reconciliation in this Docket with its books and records, including
6 the calculations supporting that reconciliation and the resulting revenue
7 deficiency.

8

9 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***
10 ***YOUR TESTIMONY?***

11 ***A6.*** I have reviewed the Company's Petition filed on August 31, 2017, along with the
12 accompanying schedules. I have also reviewed Atmos' responses to the data
13 requests submitted by the Consumer Advocate in this Docket. In addition, I
14 reviewed the Stipulation and Settlement Agreement (14-00146 Settlement
15 Agreement) between the Company and the Consumer Advocate in Docket No.
16 14-00146, which was incorporated into the Commission's Order in that Docket,
17 and modifications in subsequent dockets that have been made to the relevant
18 Approved Methodologies as defined in the 14-00146 Settlement Agreement.

19

20 ***Q7. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND CONCERNS***
21 ***IN THIS DOCKET.***

22 ***A7.*** My recommendations and concerns are summarized as follows:

- 1 • With respect to Atmos' proposal to modify the approved income tax
2 methodology for the true-up of income taxes in this and future reconciliation
3 filings:
4
- 5 1. I recommend that the Commission reject Atmos' proposal to modify the
6 approved income tax methodology for the true-up of income taxes in this
7 and future reconciliation filings. Further, Atmos' new and unexpected
8 claim that the existing methodology for computing income taxes – which
9 had been agreed to in Docket No. 14-00146 and followed in Docket No.
10 16-00105 – constitutes an income tax normalization violation should also
11 be rejected by the Commission.²
12
- 13 2. If Atmos persists in its claim of such an income tax normalization
14 violation, then I would recommend the Commission order the Company to
15 obtain a private letter ruling from the Internal Revenue Service on this
16 issue, and that Atmos also be ordered to permit the full participation of the
17 TPUC Staff and Consumer Advocate in the process of obtaining such a
18 ruling.
19
- 20 3. Alternatively, in light of Atmos' apparent view that the 14-00146
21 Settlement Agreement may be adjusted in a manner contrary to the
22 agreement and intent of the parties, then I would recommend that the
23 Commission consider terminating the current ARM mechanism and
24 instead require a new proceeding in order to establish revised
25 methodologies in order to avoid an income tax normalization violation.
26
- 27 4. If the Commission decides to allow Atmos to modify the agreed-to, and
28 previously ordered, income tax methodology, then I would recommend
29 that the Commission reduce Atmos' proposed revenue requirement by
30 \$3.38 million in order to comply with Tenn. Code Ann. § 65-5-
31 103(d)(6)(C), that requires rates to be adjusted to provide the 9.8% return
32 on equity as determined in Docket No. 14-00146, instead of the
33 approximately 11.13% return on equity that would result if Atmos'
34 proposed income tax methodology were adopted as shown on Attachment
35 WHN-3.
36
- 37 • I recommend that the methodology used to allocate components of rate base
38 be based upon the same methodology used in Atmos' last rate case in Docket
39 No. 14-00146 and exclude the impact of out-of-period pro forma adjustments.
40
- 41 • I recommend that the methodology used to allocate gas storage inventory
42 from Virginia be based on total gas deliveries between Virginia and

² It should be noted that this claim of an income tax normalization violation was not made in Atmos' Petition or pre-filed direct testimony, but instead arose only through the discovery requests of the Consumer Advocate seeking support either for or against the Company's proposed income tax calculation methodology change.

1 Tennessee that was approved in Atmos' last rate case in Docket No. 14-
2 00146.

- 3
- 4 • I recommend that the Commission approve the establishment of separate asset
5 classifications for Atmos Energy/Atmos Marketing (AEAM) and Align
6 System (ALGN) assets as proposed by Atmos in Docket No. 17-00012.
- 7
- 8 • I recommend the Commission approve an adjustment to Atmos' pension plan
9 in order to reflect amounts that are properly capitalized to utility plant.
- 10
- 11 • I recommend prospectively in future ARM filings that Atmos exclude its
12 accrued pension costs as a component of its labor loading rates and instead
13 base these rates on their cash contributions.³
- 14
- 15 • I recommend, with respect to the methodology for determining the Net
16 Operating Loss (NOL) for income tax purposes to include within Rate Base,
17 that Atmos be required to determine the specific portion of the Tennessee
18 taxable income that contributes to the overall Atmos utility NOL. In other
19 words, the Tennessee jurisdictional NOL should be based upon a specific
20 calculation of Tennessee taxable income and not an allocation of the overall
21 Atmos utility NOL.
- 22
- 23 • I recommend that the Commission adopt a revenue deficiency of \$-3,174,837
24 as the appropriate ARM reconciliation true-up reflecting all of the Consumer
25 Advocate's adjustments as shown Attachment WHN-2, Schedule 1.
- 26

27 ***Q8. PLEASE EXPLAIN THE OVERALL STRUCTURE OF THE ARM AND***
28 ***THE RELIEF THAT ATMOS IS ASKING FROM THE TRA THROUGH***
29 ***ITS PETITION.***

30 A8. The overall structure for the ARM was agreed to by Atmos and the Consumer
31 Advocate in Docket No. 14-00146 and incorporated into the Commission's order
32 in that Docket. The ARM structure generally provides for an adjustment to rates
33 by incorporating Atmos' capital and operating budgets within the methodologies
34 reflected in the Settlement Agreement in Docket No. 14-00146. The overall

³ Loading rates are ratios comprised of employee benefit costs to total labor costs, which are then appropriately added (or loaded) onto construction projects costs to reflect the assignment of total labor costs.

1 structure of the ARM also requires that the revenues received from the ARM be
2 trued-up to actual costs. Since the establishment of the ARM in Docket No. 14-
3 00146,⁴ Atmos has increased the rates paid by Tennessee consumers over \$12
4 million as shown below on Table 1.

Table 1 – ARM Rate Adjustments		
Docket No.	Docket Type	Amount
16-00013	Budget	\$4,887,864 ⁵
16-00105	Reconciliation	4,612,293 ⁶
17-00012	Budget	2,127,842 ⁷
17-00091 (Proposed)	Reconciliation	720,734 ⁸
Total		\$12,348,734

5 As shown in Table 1 above, this current filing represents the second ARM
6 reconciliation undertaken by Atmos since the adoption of new base rates in
7 Docket No. 14-00146.
8

9
10 ***Q9. HAS ATMOS ADJUSTED THE RECONCILIATION AMOUNT***
11 ***CONTAINED IN ITS INITIAL FILING?***

12 A9. Yes. In its Petition, Atmos requested the Commission to approve an ARM
13 reconciliation of \$850,177, that has since been revised to \$720,734, and that it be
14 allowed to include this amount in its upcoming ARM budget filing on February 1,
15 2018.⁹ However, both of these amounts reflected modifications to the agreed-

⁴ The increase in rates in Docket No. 14-00146 was \$711,472, which was significantly less than Atmos' original request in that Docket of approximately \$5.89 million.

⁵ Commission Order in Docket No. 16-00013, Page 4.

⁶ Commission Order in Docket No. 16-00105, Page 4.

⁷ Commission Order in Docket No. 17-00012, Page 7.

⁸ The pre-filed testimony of Company witness Waller at page 4 originally requested an increase of \$80,177. That request was later modified to \$720,734 in response to Consumer Advocate Data Request 4-8. It should also be noted that Atmos also included a revenue requirement of \$-2,589,384 in Consumer Advocate Data Request 4-8 assuming that income taxes are continued to be calculated in accordance with Dockets Nos. 14-00146 and 16-00105 as recommended by the Consumer Advocate.

⁹ Waller Direct Testimony, page 4.

1 upon procedures for reconciling income taxes from Docket No. 14-00146 that
2 were implemented in Docket No. 16-00105.

3
4 Concurrently with its filing, Atmos also presented an alternative reconciliation
5 that excluded the income tax modifications and results in a revenue deficiency of
6 \$-2,525,475.¹⁰ Atmos later amended this reconciliation to \$-2,589,384 in
7 response to CPAD Discovery Requests 1-10 and 4-8.¹¹

8
9 ***Q10. HAVE YOU REVIEWED THE CALCULATIONS SUPPORTING THE***
10 ***PROPOSED RATE ADJUSTMENT IN ATMOS' ARM***
11 ***RECONCILIATION FILING?***

12 A10. Yes. I reviewed the Company's filing. I also prepared discovery requests for
13 supplemental supporting information that was not contained in the filing. In
14 addition, I have had discussions with Atmos regarding the filing. The purpose of
15 my review was to determine whether Atmos' ARM reconciliation was based on
16 actual amounts recorded on its books.

17
18 ***Q11. WHAT WERE THE RESULTS OF YOUR REVIEW?***

19 A11. Overall, I found that Atmos' filing appropriately reconciled the actual revenues,
20 expenses and net investment to the amounts recorded on the Company's ledger,
21 other than with respect to the reconciliation of the income tax amounts and other

¹⁰ Atmos response to CPAD discovery request 4-8, inclusive of true-up for income taxes.

¹¹ Simultaneous with this filing, Atmos also presented an alternative reconciliation that excluded the impact of a true-up for income taxes resulting in a revenue deficiency of \$720,734.

1 items noted herein. Likewise, other than as noted within my testimony, I also
2 found that the reconciliation generally reflected the methodologies established in
3 Docket No. 14-00146.

4
5 However, there are certain adjustments that Atmos has either proposed or are
6 contained in this reconciliation filing with which I do not agree with:

- 7 1. Atmos is now proposing to discontinue reconciling income taxes to the
8 amount recorded on its books, which flies in the face of the language and
9 intent of the statute authorizing the ARM and the Settlement Agreement
10 agreed to by the parties and ordered by the Commission.
- 11 2. Atmos has adjusted the methodology adopted in the last rate case for
12 allocating common plant and gas storage inventory.
- 13 3. Atmos has implemented new allocation factors for AEAM and ALGN assets
14 in this reconciliation filing that were first discussed in Docket No. 17-00012.
- 15 4. Atmos is including the cash payments to its pension expense in O&M (which
16 is appropriate) but includes pension accruals in amounts that are capitalized as
17 plant in service.
- 18 5. Atmos has been inappropriately allocating the Net Operating Loss portion of
19 its Accumulated Deferred Taxes to Tennessee utility operations.¹²

20

¹² I do not quantify an adjustment associated with this recommendation. Instead, I recommend that future ARM filings be based on the direct assignment of the NOL balance to Tennessee operations.

1 As shown on Schedule 1 of the CPAD Exhibit, which I have included as
2 Attachment WHN-2 to my testimony, these adjustments reduce the Company's
3 revised Reconciliation Revenue Requirement from \$-2,589,381 to \$-3,174,837.
4

1 I. INCOME TAX RECONCILIATION

2
3 ***Q12. PLEASE EXPLAIN ATMOS' PROPOSED ADJUSTMENT TO***
4 ***DISCONTINUE RECONCILING INCOME TAXES TO THE AMOUNT***
5 ***RECORDED ON ITS BOOKS IN THE ARM CALCULATION.***

6 A12. In its initial filing in this Docket, Atmos provided two separate reconciliation
7 calculations. The reconciliation that is calculated in the same manner as agreed to
8 by the parties in Docket No. 14-00146 and was also agreed to by the parties in the
9 reconciliation filing in Docket No. 16-00105 results in a negative adjustment to
10 rates of \$-2,589,384.¹³ The reconciliation provided by Atmos that changes the
11 way the reconciliation was calculated in those dockets excludes the true-up of
12 income taxes to the amounts recorded on the books and results in a positive
13 adjustment to rates of \$720,734.¹⁴ The principal difference between these two
14 reconciliation calculations is a proposed change in the methodology for
15 calculating income taxes in a manner that excludes the true-up to the actual
16 recorded amounts on the ledger.

17
18 ***Q13. WHAT IS ATMOS' RATIONALE FOR PROPOSING A CHANGE TO***
19 ***THE ARM INCOME TAX METHODOLOGY?***

20 A13. Atmos cites two reasons for this proposed change in methodology. The first
21 reason is that the per-books income tax expense figure represents the federal and
22 state income tax expense incurred on income earned during the 12-month period

¹³ Atmos revised revenue requirement calculation filed in response to CPAD 4-8.

¹⁴ Atmos revised revenue requirement calculation filed in response to CPAD 4-8.

1 ended September. 30, 2016, which is eight months prior to the end of the test
2 period being reconciled.¹⁵ The second reason involves Atmos' allocation of
3 Tennessee excise taxes during the fiscal year taxes to utility operations outside of
4 Tennessee that are not reconciled until the fiscal year closes at September 30th.¹⁶

5
6 ***Q14. DO YOU AGREE WITH ATMOS' PROPOSED CHANGE TO THE ARM***
7 ***INCOME TAX CALCULATION METHODOLOGY?***

8 A14. No, I do not. Atmos' reasons for the proposed change in income tax calculation
9 methodology appear to be related either to timing differences or its own internal
10 allocation issues.

11
12 As to timing differences, the income tax methodology set out in the settlement
13 agreements in Docket Nos. 14-00146 and 16-00105 aligns the tax items in
14 accordance with the budget and reconciliation amounts in the relevant periods.
15 Those amounts reflect the best alignment available to the Commission.

16
17 As to the internal accounting procedures, Atmos is in complete control of when it
18 records entries related to income taxes, and so the issue of the books not properly
19 reflecting the regulatory tax expense would appear to be more of an Atmos
20 bookkeeping issue than an issue requiring a change to the Approved
21 Methodologies. It also seems that Atmos would have either known, or be in a
22 position to know, about this bookkeeping issue when it agreed to the tax

¹⁵ Direct testimony of Atmos witness Story, page 5, Lines 13 -16.

¹⁶ Direct testimony of Atmos witness Story, page 5, Lines 17 -21.

1 methodologies in the Settlement Agreement in Docket 14-00146 as well as the
2 settlement in Docket No. 16-00105.

3
4 In regard to the method used by Atmos for allocations of Tennessee excise taxes,
5 those procedures are certainly under Atmos' control, and any allocation
6 adjustment of these taxes not recognized during the ARM reconciliation period
7 will be recognized in the following year.

8
9 Neither one of the reasons set out in Atmos' Petition and direct testimony justifies
10 a change to the ARM calculation methodology for income taxes and I would
11 recommend that they be rejected.

12
13 It is worth emphasizing that in its Petition and pre-filed testimony, Atmos offered
14 no legal or regulatory reason for making the change to the ARM income tax
15 calculation methodology. In fact, in a pre-filing conference call with the
16 Consumer Advocate and the TPUC Staff, and in response to questions at that time
17 about the reasons for the proposed change, the only reasons given by Atmos were
18 those stated above. Surprisingly, when the Consumer Advocate sought to confirm
19 through discovery requests that there was no statutory or regulatory rationale for
20 such a change, Atmos unexpectedly stated in discovery responses that the
21 violation of income tax normalization rules requires this change. In other words,
22 after initially stating that there was no statute or rule requiring the change, Atmos

1 later contended that dismissing these issues may cause an income tax
2 normalization violation.
3

4 ***Q15. IF THE COMMISSION WERE TO APPROVE A CHANGE TO ATMOS'***
5 ***INCOME TAX METHODOLOGY BASED ON ITS CLAIM OF A***
6 ***NORMALIZATION VIOLATION, WOULD AN ADJUSTMENT BE***
7 ***NECESSARY TO MEET THE REQUIREMENT IN TENN. CODE ANN. §***
8 ***65-5-103(D)(6)(C) TO PROVIDE THAT THE PUBLIC UTILITY EARN***
9 ***THE AUTHORIZED RETURN ON EQUITY ESTABLISHED IN THE***
10 ***THEIR MOST RECENT RATE CASE?***

11 A15. Yes. If the Commission were to adopt the Company's argument that the present
12 methodology results in an income tax normalization violation, then any
13 adjustment would also need to assure that Atmos' earnings are trued-up to the
14 9.8% return on equity granted by the Commission in Docket No. 14-00146. I
15 believe that it is inherent in that requirement that the return on equity be
16 calculated in the same manner as was done in the last rate case – that is how the
17 plain language of the statute reads – and to do otherwise would allow utilities to
18 increase their return on equity (without Commission approval) by modifying
19 methodologies to increase that return on equity.
20

21 In this Docket, applying the statutory rate for the computation of income tax
22 expense produces a revenue requirement that is approximately \$3.38 million
23 higher than the actual tax expense that would have been calculated under the 14-

1 00146 Settlement Agreement. This additional \$3.38 million in gross revenue
2 results in an effective return on equity of 11.13% as shown on Attachment WHN-
3 3. Therefore, if the Commission were to accept the Company's proposal for the
4 change in procedures for income tax calculations, then it would be necessary to
5 also make an adjustment that only permitted Atmos to earn the authorized rate of
6 return in order to reflect this change.
7

8 ***Q16. IF THE COMMISSION WERE TO APPROVE THE CHANGE TO***
9 ***ATMOS' INCOME TAX METHODOLOGY BASED ON ATMOS' CLAIM***
10 ***OF A NORMALIZATION VIOLATION, WOULD ADJUSTMENTS BE***
11 ***REQUIRED IN OTHER ALTERNATIVE REGULATION MECHANISMS***
12 ***THAT HAVE PREVIOUSLY BEEN APPROVED BY THE COMMISSION***
13 ***UNDER TENN. CODE ANN. § 65-5-103?***

14 A16. Likely yes, though in fairness it would take more analysis and more time to do
15 that analysis than is available in this Docket. In my view, it would be a matter of
16 serious concern if the Commission were to resolve an income tax normalization
17 violation issue in multiple ways for different utilities. Therefore, if the
18 Commission were to adopt Atmos' argument that the present methodology results
19 in an income tax normalization violation, then the TPUC would likely also need
20 to revisit the alternative rate mechanisms for Piedmont and Tennessee-American
21 Water along these same lines.¹⁷

¹⁷ Atmos' argument may call into question not only its own ARM, but also some of the underlying theory and practice of alternative regulation that has been established and implemented in Tennessee. For example, do the riders used by Tennessee-American Water and Piedmont on their face violate Atmos' interpretation of the income tax normalization requirements? At this point, Atmos has not filed testimony

1

2 ***Q17. PLEASE BRIEFLY EXPLAIN THE INCOME TAX NORMALIZATION***
3 ***RULES AND THE POTENTIAL CONSEQUENCE OF A TAX***
4 ***NORMALIZATION VIOLATION.***

5 A17. Atmos must comply with the normalization provisions of the Internal Revenue
6 Code in order to take advantage of accelerated depreciation for tax purposes. This
7 normalization provision requires Atmos to use the same method of depreciation to
8 compute both its tax expense and its depreciation expense for purposes of
9 establishing its cost of service for rate making purposes. As a result, the tax
10 normalization provisions require Atmos to align its accumulated deferred income
11 taxes that are a reduction to rate base with the deferred taxes included in tax
12 expense in the cost of service. A violation of this normalization provision could
13 result is a loss of the ability to claim accelerated tax depreciation of future tax
14 returns.

15

16 ***Q18. DOES ATMOS CONTEND THAT FAILURE TO RECOGNIZE ITS***
17 ***PROPOSED CHANGE IN ARM TAX CALCULATION METHODOLOGY***
18 ***WILL RESULT IN A TAX NORMALIZATION VIOLATION?***

19 A18. In its August 31st filing, Atmos made no mention of a normalization violation.
20 However, through its discovery responses it appears that Atmos is now

on their argument or provided a detailed analysis that applies that argument and demonstrates how it is relevant. I am not a lawyer, and have not had adequate time in this Docket to fully consider all the possible ramifications of an income tax normalization violation. However, based on my own knowledge of how the alternative regulation statute has been implemented for utilities in Tennessee, there does appear to be valid concerns over whether Atmos' interpretation of income tax normalization violations requirements would be applied to Piedmont and Tennessee-American Water.

1 contending that ignoring its proposed change to the ARM tax calculation
2 methodology would result in an income tax normalization violation.¹⁸ In those
3 responses, Atmos does not set out a clear basis for its argument or provide the
4 data, as applied in the context of the argument, to support its apparent contention.
5 As a matter of fairness, if Atmos attempts to rebut this point, then I respectfully
6 request additional time to adequately respond.

7
8 ***Q19. KEEPING IN MIND YOUR REQUEST FOR ADDITIONAL TIME IF***
9 ***ATMOS PERSISTS IN ITS NORMALIZATION VIOLATION CLAIM, DO***
10 ***YOU AGREE WITH ATMOS THAT FAILURE TO RECOGNIZE ITS***
11 ***PROPOSED CHANGE IN ARM TAX CALCULATION METHODOLOGY***
12 ***WILL RESULT IN A TAX NORMALIZATION VIOLATION?***

13 A19. At this point, I do not. Atmos has not presented either in testimony or through
14 discovery, any specific authority – such as an Internal Revenue Service (IRS)
15 revenue ruling or private letter ruling – that is directly relevant in support of its
16 new position with respect to a normalization violation.¹⁹ To the contrary of
17 Atmos’ apparent position, it certainly appears to me that an alignment already
18 exists between the accumulated deferred income taxes in rate base and the
19 deferred taxes included in tax expense within the ARM calculation.²⁰ While the

¹⁸ See specifically Atmos response to CPAD discovery request 1-3g.

¹⁹ From its discovery responses, Atmos apparently believes that reciting an IRS Treasury Regulation without providing a specific detailed explanation of how that regulation applies to the facts here somehow supports its position. See specifically Atmos’ response to CPAD discovery request 4-44. That Treasury Regulation, on its face, does not appear to be specific as to the facts here – or at the very least Atmos does not demonstrate its applicability with specific facts. Of course, if Atmos provides new facts or information in “rebuttal” testimony, I would request the opportunity to analyze it and prepare a response.

²⁰ It is also worth noting again that Atmos agreed to this alignment and applied it in earlier dockets. See Docket Nos. 14-00146 and 16-00105.

1 ARM reconciliation period may not coincide with Atmos' fiscal year, and there is
2 not a requirement that it does so, I believe that any differences would generally be
3 reconciled in the following period, and therefore no tax normalization violation
4 has taken place.²¹

5
6 ***Q20. IS THERE ANY WAY FOR THE COMMISSION TO SEEK GUIDANCE***
7 ***FROM THE INTERNAL REVENUE SERVICE ON THIS MATTER?***

8 A20. Yes. If Atmos persists in its claim of such an income tax normalization violation,
9 then I would recommend the Commission order the Company to obtain a Private
10 Letter Ruling (PLR) from the Internal Revenue Service on this issue. In addition,
11 Atmos should also be ordered to permit the full participation of the TPUC Staff
12 and Consumer Advocate in the process of analyzing, drafting and communicating
13 with the IRS concerning any request for a PLR.

14
15 ***Q21. IF THE COMMISSION DETERMINES THAT THE EXISTING ARM TAX***
16 ***CALCULATION METHODOLOGY WILL RESULT IN A TAX***
17 ***NORMALIZATION VIOLATION, WHAT ACTION WOULD YOU***
18 ***RECOMMEND THAT THE COMMISSION TAKE?***

19 A21. If the Commission determines that the present ARM income tax calculation
20 methodology which involves a true-up to the actual recorded income taxes on
21 Atmos' books results in a tax normalization violation, then I would recommend

²¹ Even as it asserts its apparent belief that a normalization violation has occurred with respect to income taxes under the ARM, Atmos has stated that the only entity that can officially speak as to whether or not a normalization violation exists would be the Internal Revenue Service.

1 that the Commission give serious consideration to terminating the current ARM
2 and directing Atmos to make an appropriate filing that avoids this issue. It is not
3 possible to overstate the extent to which the true-up to actual recorded amounts on
4 Atmos' books was a core concept of certain portions of the 14-00146 Settlement
5 Agreement which in part reads as follows:

6 The annual reconciliation shall include a calculation of actual cost
7 of service, determined in accordance with the Approved
8 Methodologies, for the Forward Looking Test Year immediately
9 completed; using the same revenue requirement model used in each
10 Annual ARM Filing, substituting actual results in place of
11 previously forecasted data for all aspects of cost of service,
12 excluding revenue calculations. Actual cost of service shall be
13 compared with actual booked revenue, ignoring the revenue impact
14 of any prior year reconciliation, to determine the revenue
15 requirement ("Annual Reconciliation Revenue Requirement")
16 necessary to adjust the actual return on equity to the Authorized
17 Return on Equity for the Forward Looking Test Year immediately
18 completed, all determined in accordance with the Approved
19 Methodologies. The Calculation of the Annual Reconciliation
20 Revenue Requirement shall be consistent with Schedule 12 of the
21 ARM Tariff (Attachment C). Interest will be added to the Annual
22 Revenue Reconciliation Revenue Requirement (whether positive or
23 negative). The interest rate shall be the Overall Cost of Capital as
24 stated on Schedule 9 of the Annual ARM Filing Compounded for 2
25 years.²² [Emphasis added.]
26

27 As can be seen, it was always the intent of both parties that all components of the
28 ARM be trued-up to the actual amounts recorded on Atmos' books. That intent
29 was clearly set out in the 14-00146 Settlement Agreement. If the Commission
30 now abandons the true-up requirement and determines that using the agreed and
31 approved approach for truing up the income tax calculation component of the
32 ARM violates the normalization rules of the IRS, then I would recommend that
33 the ARM be discontinued.

²² 14-00146 Settlement Agreement, Item 14b, page 26, April 29, 2015.

1

2 ***Q22. ARE THERE ANY ALTERNATIVES TO DISCONTINUING THE ARM IF***
3 ***THE COMMISSION DETERMINES THAT THE CURRENT TAX***
4 ***CALCULATION METHODOLOGY WILL RESULT IN A TAX***
5 ***NORMALIZATION VIOLATION?***

6 A22. Possibly. Currently the ARM reconciliation period ends at May 31st. It may well
7 be that moving this reconciliation period forward by four months in order to
8 coincide with Atmos' fiscal year end will relieve any normalization issues. There
9 would obviously be a number of complications to think through – not the least of
10 which would be dealing with the agreements of the parties in the 14-00146
11 Settlement Agreement and the mechanics of such a change involving a
12 reconciliation period of 16 months from June 2016 through September 2017.
13 With respect to those issues, it is unclear exactly how such a reconciliation would
14 be calculated.²³

15

16

²³ I express no opinion on how the ramifications of this decision should be handled with respect to other utilities such as Tennessee-American Water and Piedmont. I would suggest that the relevant analysis be undertaken as soon as practicable.

1 **II. RATE BASE ALLOCATION METHODOLOGY**

2

3 ***Q23. MR. NOVAK, PLEASE DESCRIBE ATMOS' RATE BASE ALLOCATION***
4 ***METHODOLOGY.***

5 A23. A great deal of the calculation process for the ARM Reconciliation involves
6 tracing costs included in the ARM filing to the accounting books and records.
7 However, many of these costs included in the ARM do not originate in
8 Tennessee, but are instead incurred in other locations and then allocated to
9 Tennessee. For example, Atmos' headquarters and call center are both located in
10 Dallas and the cost of these facilities are allocated to Tennessee using an
11 allocation methodology that is generally based on a combination of the average
12 number of customers, O&M expenses and property, plant & equipment from the
13 preceding fiscal year.²⁴ This is the same allocation methodology that was used by
14 both Atmos and the Consumer Advocate to assign common costs to Tennessee in
15 the last rate case.²⁵

16

17 ***Q24. DID ATMOS FOLLOW THIS SAME METHODOLOGY TO ALLOCATE***
18 ***COMMON COST TO TENNESSEE IN THE ARM RECONCILIATION?***

19 A24. No. Atmos began with the process described above but then made a number of
20 out-of-period pro forma adjustments to this methodology that resulted in an
21 increase to the Tennessee allocation factors. Specifically, Atmos made out-of-

²⁴ Atmos has a regional office in Tennessee as well as other corporate assets that are also allocated proportionately to Tennessee.

²⁵ TPUC Docket No. 14-00146.

1 period pro forma adjustments to the 2017 Tennessee allocation factors for the
2 following events:

- 3 • The sale of Atmos Energy Marketing effective January 1, 2017;
- 4 • The formation of Atmos Energy Louisiana Industrial Gas effective January 1,
5 2017; and
- 6 • The acquisition of EnLink North Texas Pipeline effective December 20,
7 2016.²⁶

8
9 Atmos adjusted its internal allocation factors to take these transactions into
10 account in December 2016 and again in January 2017. However, in the ARM
11 Reconciliation filing, Atmos treated the allocation factors as if they had taken
12 place retroactively from October 2016.

13
14 ***Q25. DO YOU AGREE WITH ATMOS CALCULATION OF THE***
15 ***ALLOCATION FACTORS FOR 2017?***

16 A25. No, I do not. The agreed upon procedures included in the 14-00146 Settlement
17 Agreement contain no provision for out-of-period pro forma adjustments to the
18 allocation factors calculations. Instead, the allocation factors that are used for the
19 current year should be based upon the actual calculations from the preceding
20 fiscal year without any after-the-fact adjustments.

21
22 ***Q26. WHAT ALLOCATION FACTORS HAVE YOU USED TO ASSIGN***
23 ***COSTS TO TENNESSEE FOR FISCAL YEAR 2017?***

24 A26. I have used the allocation factors presented below in Table 2 to calculate the
25 Consumer Advocate's revenue requirement from the ARM Reconciliation

²⁶ Atmos response to CPAD Discovery Request 5-3.

included on the CPAD Exhibit. These allocation factors are taken from Atmos' books for the preceding fiscal year (12 months ended September 30, 2016) without any out-of-period adjustments.

Table 2 – 2017 Allocation Factor Calculations		
Allocation Factor	Atmos Calculations²⁷	CPAD Calculations²⁸
Division 02	4.33%	4.26%
Division 12	4.52%	4.52%
Division 91	41.88%	41.81%
CKV Center Assets	1.86%	1.86%
Greenville Assets	1.29%	1.29%
AEAM Assets	5.36%	5.20%
ALGN Assets	0.00%	0.00%

²⁷ Company filing, Plant Balances 2017 TN True-Up Filing, Summary tab.

²⁸ Consumer Advocate Workpapers.

1 **III. VIRGINIA GAS STORAGE ALLOCATION METHODOLOGY**

2

3 ***Q27. MR. NOVAK, PLEASE DESCRIBE ATMOS' ALLOCATION***

4 ***METHODOLOGY FOR GAS STORAGE INVENTORY.***

5 A27. One component of rate base for Atmos relates to gas storage inventory. This
6 storage inventory represents the average cost that Atmos has invested in gas
7 storage in order to have an adequate supply of gas on hand during peak demands.
8 A portion of this gas storage is located in Virginia and then allocated between
9 Tennessee and Virginia. In the last rate case, the Virginia gas storage was
10 allocated to Tennessee based on the total gas volumes delivered (sales and
11 transportation volumes) between the two states.

12

13 ***Q28. DID ATMOS USE THIS SAME METHODOLOGY TO ALLOCATE***

14 ***VIRGINIA GAS STORAGE TO TENNESSEE IN THIS ARM***

15 ***RECONCILIATION FILING?***

16 A28. No. Atmos has changed its procedure to allocate Virginia gas storage costs to
17 Tennessee in this Reconciliation Filing to a ratio based only on sales volumes (no
18 transportation volumes) between the two states. This change results in an
19 increase of approximately \$150,000 in Virginia gas storage costs allocated to
20 Tennessee as shown below on Table 3.

21

22

23

Table 3 – Virginia Gas Storage Allocation Calculations		
Item	Atmos Calculations²⁹	CPAD Calculations³⁰
Avg. Virginia Gas Inventory (5/16 – 5/17)	\$2,738,223	\$2,738,223
Avg. Tennessee Allocation Factor	64.13%	58.81%
Tennessee Allocated Inventory	\$1,756,068	\$1,610,428

1

2 ***Q29. DO YOU AGREE WITH ATMOS CALCULATION OF THE***
3 ***ALLOCATION FOR VIRGINIA GAS STORAGE?***

4 A29. No, I do not. The agreed upon procedures included in the 14-00146 Settlement
5 Agreement have no provision allocating Virginia gas storage costs based only on
6 sales volumes between the two states. Instead, the allocation factors that are used
7 should be identical to the procedure adopted in the last rate case that was based on
8 the total volumes delivered (sales and transportation) which I have used to
9 calculate the Consumer Advocate's revenue requirement from the ARM
10 Reconciliation included on the CPAD Exhibit.

11

12

²⁹ Atmos response to CPAD Discovery Request 4-8.

³⁰ Consumer Advocate Workpapers.

1 **IV. AEAM & ALGN ASSET CLASSIFICATIONS**

2

3 ***Q30. MR. NOVAK, HAVE YOU REVIEWED ATMOS' IMPLEMENTATION***

4 ***OF THE AEAM AND ALGN ALLOCATION FACTORS?***

5 A30. Yes. In the ARM Budget Filing from Docket No. 17-00012, I expressed

6 reservations over Atmos' proposal to recognize Atmos Energy/Atmos Marketing

7 (AEAM) assets and Align System (ALGN) assets separately from other Division

8 02 assets for rate making purposes. As a result, the Commission deferred

9 treatment for these assets until this current Reconciliation Docket.³¹ I have now

10 reviewed the implementation of these allocation factors within this ARM

11 Reconciliation Filing.

12

13 ***Q31. WHAT WERE THE RESULTS OF YOUR REVIEW FOR THE***

14 ***ALLOCATION OF THE AEAM AND ALGN ASSETS?***

15 A31. As shown below in Table 4, Atmos has separately assigned average plant of \$22

16 million in AEAM assets and \$12 million in ALGN assets from Division 02.

17 These are significant assets that would have been allocated to Tennessee in total

18 using the Division 02 allocator of 4.26% without its separate classification. Since

19 none of the ALGN assets are currently used in Tennessee, it is to the Tennessee

20 ratepayer's advantage to have these two assets separately classified. I would

21 therefore recommend that the Commission approve the classification and

22 allocation of the AEAM and ALGN assets proposed by Atmos subject to the

³¹ TPUC Order in Docket No. 17-00012, page 10.

1 corrections for the out-of-period pro forma adjustments to all allocation factors
2 mentioned earlier in my testimony.

Table 4 – Division 02 Average Assets For the 13 Month Period Ended May 31, 2017		
Item	Plant³²	TN Allocation Factors³³
AE/AM Assets	\$22,148,354	5.20%
ALGN Assets	12,464,492	0.00%
Greenville Assets	9,196,755	1.29%
Remaining Division 02 Assets	148,711,990	4.26%
Total	\$192,521,591	

³² Consumer Advocate Workpapers.

³³ Consumer Advocate Workpapers.

1 V. PENSION EXPENSE

2
3 **Q32. MR. NOVAK, DID YOU REVIEW ATMOS' CALCULATION OF**
4 **PENSION EXPENSE?**

5 A32. Yes. In conformance with past Commission policy, Atmos includes a pro-forma
6 adjustment in its pension expense calculation to reflect only its actual cash
7 contributions as an O&M expense. However, Atmos fails to recognize that a
8 portion of these cash contributions should be capitalized to construction projects.
9 Instead, Atmos includes its entire cash contribution as an O&M expense while
10 also including the accrued portion of pension expense related to capitalized
11 construction projects in rate base at the same time.

12
13 **Q33. DO YOU AGREE WITH ATMOS' TREATMENT OF CAPITALIZED**
14 **PENSION EXPENSE?**

15 A33. No. The ARM reconciliation should not contain both the costs of cash
16 contributions and at the same time include a portion of the accrued costs that are
17 capitalized to plant in service. This mix of pension calculation methodologies has
18 resulted in a double-counting of pensions costs.

19
20 **Q34. HOW DO YOU RECOMMEND THAT THE COMMISSION TREAT**
21 **CAPITALIZED PENSION EXPENSE?**

22 A34. I recommend that the Commission require Atmos to adjust its annual loading rates
23 prospectively to reflect its cash pension contributions in order to be consistent

1 with the agreed-upon methodologies that were established in Docket No. 14-
2 00146 for calculating pension expense. This change results in a decrease to O&M
3 expense of \$275,548 from the Company's filing.³⁴
4
5
6

³⁴ CPAD Workpapers. Since Atmos is capitalizing pensions costs on an accrual basis, its construction projects already contain a component for employee pension costs and no adjustment to rate base is necessary.

1 **VI. NET OPERATING LOSS ALLOCATION METHODOLOGY**

2
3 ***Q35. MR. NOVAK HAVE YOU REVIEWED THE COMPANY'S***
4 ***METHODOLOGY FOR ALLOCATING THE NET OPERATING LOSS***
5 ***FOR ACCUMULATED DEFERRED INCOME TAXES?***

6 A35. Yes. The Net Operating Loss (NOL) for Accumulated Deferred Income Taxes
7 (ADIT) represents the cumulative amount by which tax deductions exceed taxable
8 income, primarily because of accelerated depreciation methods for calculating
9 taxable income. These NOLs have value since they can be used to offset future
10 taxable income in later years. As reflected in the Settlement Agreement in Docket
11 No. 14-00146, these NOLs represent a reduction to ADIT which has the result of
12 increasing rate base.

13
14 ***Q36. DOES ATMOS CALCULATE TAX DEPRECIATION FOR THE NOL***
15 ***CALCULATION IN THE SAME WAY THAT IT CALCULATES TAX***
16 ***DEPRECIATION FOR THE ADIT CALCULATION?***

17 A36. No. The tax depreciation calculation for ADIT is calculated based on the tax
18 depreciation rates that are directly applied to Tennessee assets. However, the tax
19 depreciation calculation within the NOL balance is based upon all of Atmos'
20 corporate assets and then allocated to Tennessee.³⁵ As a result, all items included

³⁵ It is important to point out that Atmos has not relied upon its consolidated NOL balance in order to allocate the NOL to its Tennessee operations. Instead, Atmos has calculated what the NOL would have been as if the utility were a stand-alone entity. This method has been referred to as the "silo approach" to determining the NOL applicable to utility operations. However, Atmos has abandoned this method by not further identifying the specific silo results to its Tennessee operations which results in a larger rate base.

1 in the NOL tax depreciation calculation are allocated to Tennessee jurisdiction
2 operations regardless of whether those items are specifically related to Tennessee.
3

4 ***Q37. DO YOU AGREE WITH ATMOS' TAX DEPRECIATION***
5 ***METHODOLOGY FOR THE NOL CALCULATION?***

6 A37. No. The appropriate methodology for determining the NOL to include in rate
7 base is to use the direct portion of the Tennessee taxable income that contributes
8 to the overall NOL. In other words, the Tennessee jurisdictional NOL should be
9 based upon a specific calculation of the Tennessee taxable income and not an
10 allocation of the overall NOL.
11

12 ***Q38. HOW DO YOU RECOMMEND THAT THE COMMISSION TREAT THE***
13 ***NOL CALCULATION?***

14 A38. Due to the complexity of this issue and the need for Atmos to provide the
15 underlying documentation for it, I am not supporting an adjustment at this time.
16 Instead, I recommend that the Commission order the Company to begin including
17 in future ARM filings only the direct portion of the Tennessee taxable income that
18 contributes to the overall NOL.
19

20 ***Q39. DOES THIS COMPLETE YOUR TESTIMONY?***

21 A39. Yes, it does. However, I reserve the right to incorporate any new information that
22 may subsequently become available.

ATTACHMENT WHN-1

William H. Novak Vitae

William H. Novak

19 Morning Arbor Place
The Woodlands, TX 77381

Phone: 713-298-1760

Email: halnovak@whnconsulting.com

Areas of Specialization

Over thirty-five years of experience in regulatory affairs and forecasting of financial information in the rate setting process for electric, gas, water and wastewater utilities. Presented testimony and analysis for state commissions on regulatory issues in four states and has presented testimony before the FERC on electric issues.

Relevant Experience

WHN Consulting – September 2004 to Present

In 2004, established WHN Consulting to provide utility consulting and expert testimony for energy and water utilities. WHN Consulting is a “complete needs” utility regulation firm able to provide clients with assistance in all areas of utility rate analysis. Since 2004, WHN Consulting has provided assistance to public utility commissions and state consumer advocates in over ten state jurisdictions. Some of the topics and issues that WHN Consulting has presented testimony for include net metering, alternative rate regulation, revenue requirement calculations in rate cases, class cost of service studies, rate design, deferred income tax calculations, purchased gas costs, purchased power costs, and weather normalization studies.

Sequent Energy Management – February 2001 to July 2003

Vice-President of Regulatory Compliance for approximately two years with Sequent Energy Management, a gas trading and optimization affiliate of AGL Resources. In that capacity, directed the duties of the regulatory compliance department, and reviewed and analyzed all regulatory filings and controls to ensure compliance with federal and state regulatory guidelines. Engaged and oversaw the work of a number of regulatory consultants and attorneys in various states where Sequent has operations. Identified asset management opportunities and regulatory issues for Sequent in various states. Presented regulatory proposals and testimony to eliminate wholesale gas rate fluctuations through hedging of all wholesale gas purchases for utilities. Also prepared testimony to allow gas marketers to compete with utilities for the transportation of wholesale gas to industrial users.

Atlanta Gas Light Company – April 1999 to February 2001

Director of Rates and Regulatory Analysis for approximately two years with AGL Resources, a public utility holding company serving approximately 1.9 million customers in Georgia, Tennessee, and Virginia. In that capacity, was instrumental in leading

Atlanta Gas Light Company through the most complete and comprehensive gas deregulation process in the country that involved terminating the utility's traditional gas recovery mechanism and instead allowing all 1.5 million AGL Resources customers in Georgia to choose their own gas marketer. Also responsible for all gas deregulation filings, as well as preparing and defending gas cost recovery and rate filings. Initiated a weather normalization adjustment in Virginia to track adjustments to company's revenues based on departures from normal weather. Analyzed the regulatory impacts of potential acquisition targets.

Tennessee Regulatory Authority – Aug. 1982 to Apr 1999; Jul 2003 to Sep 2004

Employed by the Tennessee Regulatory Authority (formerly the Tennessee Public Service Commission) for approximately 19 years, culminating as Chief of the Energy and Water Division. Responsible for directing the division's compliance and rate setting process for all gas, electric, and water utilities. Either presented analysis and testimony or advised the Commissioners/Directors on policy setting issues, including utility rate cases, electric and gas deregulation, gas cost recovery, weather normalization recovery, and various accounting related issues. Responsible for leading and supervising the purchased gas adjustment (PGA) and gas cost recovery calculation for all gas utilities. Responsible for overseeing the work of all energy and water consultants hired by the TRA for management audits of gas, electric and water utilities. Implemented a weather normalization process for water utilities that was adopted by the Commission and adopted by American Water Works Company in regulatory proceedings outside of Tennessee.

Education

B.A, Accounting, Middle Tennessee State University, 1981
MBA, Middle Tennessee State University, 1997

Professional

Certified Public Accountant (CPA), Tennessee Certificate # 7388
Certified Management Accountant (CMA), Certificate # 7880
Former Vice-Chairman of National Association of Regulatory Utility Commission's Subcommittee on Natural Gas

Witness History for William H. Novak, CPA

Selected Cases

State	Company/Sponsor	Year	Assignment	Docket
Louisiana	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Arkla	S-32534
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	S-32537
	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	R-31417
	Aqua Utilities/Aqua Utilities	2006	Presentation of Rate Case on behalf of Aqua Utilities	06-00187
Tennessee	Atmos Energy Corporation/Atmos Intervention Group	2007	Rate design for Industrial Intervenor Group	07-00105
	Bristol TN Essential Services/BTES	2009	Audit of Cost Allocation Manual	05-00251
	Chattanooga Manufacturers Association/CMA	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	HB-1349
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	11-00144
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	12-00049
	Tennessee-American Water Company/Tennessee AG	2013-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	16-00126
	Piedmont Natural Gas Company/Tennessee AG	2013-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	16-00140
	Piedmont Natural Gas Company/Tennessee AG	2014	Audit of Recovery of Compressed Natural Gas Infrastructure Costs	14-00086
	Piedmont Natural Gas Company/Tennessee AG	2014	Audit of Accumulated Deferred Federal Income Tax	14-00017
	Atmos Energy Corporation/Tennessee AG	2014	Rate Case Audit - Revenues, O&M Expenses, Rate Base and Rate Design	14-00146
	Atmos Energy Corporation/Tennessee AG	2015-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	16-00105
	B&W Gas Company/B&W	2015	Presentation of Rate Case on behalf of B&W Gas Company	15-00042
	AEP & Kingsport Power/Tennessee AG	2015	Audit of Storm Costs and Rate Recovery	15-00024
	AEP & Kingsport Power/Tennessee AG	2016	Rate Case Audit - Revenue, Rate Base, Class Cost of Service Study & Rate Design	16-00001
Alabama	Jefferson County (Birmingham) Wastewater/Alabama AG	2013	Bankruptcy Filing - Allowable Costs and Rate Design	2009-2318
Illinois	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	06-0556
	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	09-00351-UT
	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	10-M-0451
	Ohio-American Water Company/Ohio Consumers' Counsel	2010	Rate Case Audit - Class Cost of Service and Rate Design	09-0391-WS-AIR
Ohio	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	07-1080-GA-AIR
	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	07-0723-EL-UNC
	Center Point Energy/Texas AG	2009	Rate Case Audit - Class Cost of Service and Rate Design	GUD 9902
	Sharyland Utilities/St. Lawrence Cotton Growers Assn.	2017	Rate Case Audit - Class Cost of Service and Rate Design	PUC 45414
North Carolina	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	W-218_Sub-319
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	1027
NARUC	National Association of Regulatory Utility Commissioners	2015	Presentation of Regulatory Issues with Net Metering Customers on Rates of Electric Utilities	

NOTE: Click on Docket Number to view testimony/report for each case where available.

ATTACHMENT WHN-2

CPAD Exhibit

)	
)	
)	
Petition of Atmos Energy Corporation for)	
Approval of 2017 Annual Reconciliation)	Docket No. 17-00091
Filing)	
)	
)	
)	

Docket No. 17-00091

December 4, 2017

ATMOS ENERGY CORPORATION
INDEX TO SCHEDULES
For the 12 Months Ending May 31, 2017

	<u>Schedule</u>
Results of Operations	1
Average Rate Base	2
Lead Lag Results	3
Income Statement at Current Rates	4
Taxes Other than Income Income Taxes	5
Excise and Income Taxes	6
Rate of Return Summary	7
Revenue Conversion Factor	8

ATMOS ENERGY CORPORATION
Results of Operations
For the 12 Months Ending May 31, 2017

Line No.		Rate Case Settlement 14-00146 A/	ARM Reconciliation 16-00105 B/	Atmos ARM Amended 17-00091 C/	CPAD ARM Filing 17-00091 D/
1	Rate Base	\$ 247,958,277	\$ 253,040,062	\$ 278,641,980	\$ 278,171,264
2	Operating Income At Current Rates	18,731,838	15,885,421	20,432,375	20,708,405
3	Earned Rate Of Return	7.55%	6.28%	7.33%	7.44%
4	Fair Rate Of Return	7.73%	7.57%	7.47%	7.47%
5	Required Operating Income	19,167,175	19,155,134	20,814,556	20,779,393
6	Operating Income Deficiency	435,337	3,269,713	382,181	70,989
7	Gross Revenue Conversion Factor	<u>1.634300</u>	<u>1.631900</u>	<u>1.633200</u>	<u>1.640500</u>
8	Revenue Deficiency Before Tax Adj.	\$ <u>711,471</u>	\$ <u>5,335,844</u>	\$ <u>624,178</u>	\$ <u>116,457</u>
9	Actual Income Taxes		\$ 7,120,772	\$ 6,579,767	\$ 6,579,767
10	Calculated Income Taxes		<u>8,470,641</u>	<u>9,445,874</u>	<u>9,434,152</u>
11	Income Tax True-Up		\$ <u>-1,349,869</u>	\$ <u>-2,866,107</u>	\$ <u>-2,854,385</u>
12	Revenue Deficiency After Tax Adj.		\$ 3,985,975	\$ -2,241,929	\$ -2,737,928
13	Carrying Cost on Revenue Deficiency (2 Years)		<u>626,318</u>	<u>-347,454</u>	<u>-424,324</u>
14	Total Revenue Deficiency for 2017 ARM		\$ <u>4,612,293</u>	\$ <u>-2,589,381</u>	\$ <u>-3,162,252</u>

A/ Attachment A to Stipulation & Settlement Agreement of 4/29/15 in Docket 14-00146.

B/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.

C/ Company Revised Filing in Docket 17-00091 from CPAD DR4-8.

Company also includes an alternative filing that excludes actual income taxes paid, resulting in a revenue deficiency of \$+720,733.

D/ CPAD Workpapers.

ATMOS ENERGY CORPORATION
Average Rate Base
For the 12 Months Ending May 31, 2017

Line No.		Rate Case Settlement 14-00146 A/	ARM Reconciliation 16-00105 B/	Atmos ARM Amended 17-00091 C/	CPAD ARM Filing 17-00091 D/
Additions:					
1	Utility Plant in Service	\$ 478,668,068	\$ 476,544,021	\$ 508,723,937	\$ 508,640,510
2	Construction Work in Progress	8,602,955	8,493,083	12,056,676	12,052,765
3	Gas Inventory	6,384,483	4,684,648	4,109,514	4,109,514
4	Materials & Supplies	5,895	7,377	32,263	32,233
5	Deferred Pension Regulatory Asset	973,868	973,868	324,623	324,623
6	Intercompany Leased Property	5,322,811	5,774,164	5,801,552	5,801,553
7	Working Capital	<u>777,582</u>	<u>1,066,982</u>	<u>1,309,576</u>	<u>1,216,395</u>
8	Total Additions	\$ <u>500,735,662</u>	\$ <u>497,544,143</u>	\$ <u>532,358,141</u>	\$ <u>532,177,592</u>
Deductions:					
9	Accumulated Depreciation	\$ 194,176,859	\$ 189,995,951	\$ 196,886,653	\$ 196,835,636
10	Capitalized Incentive Compensation	0	0	2,475,263	2,475,263
11	Accumulated Deferred Income Taxes	54,842,598	49,647,283	50,667,115	51,008,300
12	Operating Reserves	0	0	0	0
13	Customer Advances for Construction	75,078	76,428	37,337	37,337
14	Customer Deposits	3,632,272	4,717,109	3,596,656	3,596,656
15	Accumulated Interest on Customer Deposits	<u>50,578</u>	<u>67,310</u>	<u>53,137</u>	<u>53,137</u>
16	Total Deductions	\$ <u>252,777,385</u>	\$ <u>244,504,081</u>	\$ <u>253,716,161</u>	\$ <u>254,006,328</u>
17	Rate Base	\$ <u>247,958,277</u>	\$ <u>253,040,062</u>	\$ <u>278,641,980</u>	\$ <u>278,171,264</u>

A/ Attachment A to Stipulation & Settlement Agreement of 4/29/15 in Docket 14-00146.

B/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.

C/ Company Revised Filing in Docket 17-00091 from CPAD DR4-8.

D/ CPAD Workpapers.

ATMOS ENERGY CORPORATION
Lead Lag Results
For the 12 Months Ending May 31, 2017

Line No.		Rate Case Settlement 14-00146 A/	ARM Reconciliation 16-00105 B/	Atmos ARM Amended 17-00091 C/	CPAD ARM Filing 17-00091 D/
1	Revenue Lag	37.50	37.50	37.50	37.50
2	Expense Lag	35.65	33.97	33.58	33.85
3	Net Lag	1.85	3.53	3.92	3.65
4	Daily Cost of Service	\$ 419,234	\$ 302,685	\$ 333,961	\$ 332,978
5	Lead Lag Study	\$ 777,582	\$ 1,066,982	\$ 1,309,576	\$ 1,216,395

- A/ Attachment A to Stipulation & Settlement Agreement of 4/29/15 in Docket 14-00146.
B/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.
C/ Company Revised Filing in Docket 17-00091 from CPAD DR4-8.
D/ CPAD Workpapers.

ATMOS ENERGY CORPORATION
Income Statement at Current Rates
For the 12 Months Ending May 31, 2017

Line No.		Rate Case Settlement 14-00146 A/	ARM Reconciliation 16-00105 B/	Atmos ARM Amended 17-00091 C/	CPAD ARM Filing 17-00091 D/
	Operating Revenues:				
1	Gas Sales & Transportation Revenues	\$ 151,467,768	\$ 105,542,954	\$ 120,146,893	\$ 120,141,843
2	Other Revenues	1,136,588	1,040,691	1,111,750	1,116,801
3	AFUDC	66,220	41,170	69,679	69,679
4	Total Operating Revenue	\$ 152,670,576	\$ 106,624,815	\$ 121,328,322	\$ 121,328,323
	Operating & Maintenance Expenses:				
5	Purchased Gas Expense	\$ 87,478,439	\$ 42,105,404	\$ 49,958,064	\$ 49,958,064
6	Operations & Maintenance - Labor	7,915,572	7,710,404	8,010,809	8,010,809
7	Operations & Maintenance - NonLabor	11,179,961	15,301,031	13,989,093	13,709,665
8	Total O&M Expenses	\$ 106,573,972	\$ 65,116,839	\$ 71,957,966	\$ 71,678,539
	Other Expenses:				
9	Depreciation Expense	\$ 12,353,190	\$ 11,498,891	\$ 11,858,675	\$ 11,679,140
10	Interest on Customer Deposits	118,049	167,831	132,163	132,163
11	General Taxes	6,879,384	7,551,324	7,743,266	7,741,392
12	State Excise Taxes	1,328,029	1,061,295	1,525,180	1,555,805
13	Federal Income Taxes	6,686,114	5,343,214	7,678,697	7,832,879
14	Total Other Expenses	\$ 27,364,766	\$ 25,622,555	\$ 28,937,981	\$ 28,941,379
15	Total Operating Expenses	\$ 133,938,738	\$ 90,739,394	\$ 100,895,947	\$ 100,619,918
16	Utility Operating Income	\$ 18,731,838	\$ 15,885,421	\$ 20,432,375	\$ 20,708,405

A/ Attachment A to Stipulation & Settlement Agreement of 4/29/15 in Docket 14-00146.

B/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.

C/ Company Revised Filing in Docket 17-00091 from CPAD DR4-8.

D/ CPAD Workpapers.

ATMOS ENERGY CORPORATION
Taxes Other than Income Taxes
For the 12 Months Ending May 31, 2017

Line No.		Rate Case Settlement 14-00146 A/	ARM Reconciliation 16-00105 B/	Atmos ARM Amended 17-00091 C/	CPAD ARM Filing 17-00091 D/
1	Property Taxes	\$ 3,779,448	\$ 4,156,162	\$ 4,473,319	\$ 4,473,334
2	TPUC Inspection Fee	530,084	641,342	552,733	552,733
3	Payroll Taxes	272,080	579,317	615,849	613,960
4	Franchise Tax	622,004	707,000	722,167	722,167
5	Gross Receipts Tax	1,241,962	1,447,204	1,369,230	1,369,230
6	Allocated & Other Taxes	433,806	20,299	9,968	9,968
7	Total	\$ 6,879,384	\$ 7,551,324	\$ 7,743,266	\$ 7,741,392

- A/ Attachment A to Stipulation & Settlement Agreement of 4/29/15 in Docket 14-00146.
B/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.
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D/ CPAD Workpapers.

ATMOS ENERGY CORPORATION
Excise and Income Taxes
For the 12 Months Ending May 31, 2017

Line No.		Rate Case Settlement 14-00146 A/	ARM Reconciliation 16-00105 B/	Atmos ARM Amended C/	CPAD ARM D/
1	Operating Revenues	\$ 152,670,576	\$ 106,583,645	\$ 121,258,643	\$ 121,328,323
	Operating Expenses:				
2	Purchased Gas Expense	\$ 87,478,439	\$ 42,105,404	\$ 49,958,064	\$ 49,958,064
3	O&M Expenses	19,095,533	23,011,435	21,999,902	21,720,474
4	Depreciation Expense	12,353,190	11,498,891	11,858,675	11,679,140
5	Interest on Customer Deposits	118,049	167,831	132,163	132,163
6	General Taxes	6,879,384	7,551,324	7,743,266	7,741,392
7	Total Operating Expenses	\$ 125,924,595	\$ 84,334,885	\$ 91,692,070	\$ 91,231,234
8	NOI Before Excise and Income Taxes	\$ 26,745,981	\$ 22,248,760	\$ 29,566,573	\$ 30,097,088
9	AFUDC	66,220	0	0	69,679
10	Interest Expense	6,248,549	5,921,137	6,102,259	6,091,951
11	Pre-tax Book Income	\$ 20,431,212	\$ 16,327,623	\$ 23,464,314	\$ 23,935,458
12	Schedule M Adjustments	20,431,212	16,327,623	23,464,314	23,935,458
13	Excise Taxable Income	\$ 0	\$ 0	\$ 0	\$ 0
14	Excise Tax Rate	6.50%	6.50%	6.50%	6.50%
15	Excise Tax Payable	\$ 0	\$ 0	\$ 0	\$ 0
16	Excise Tax - Deferred	1,328,029	1,061,295	1,525,180	1,555,805
17	State Excise Tax Expense	\$ 1,328,029	\$ 1,061,295	\$ 1,525,180	\$ 1,555,805
18	Pre-tax Book Income	\$ 20,431,212	\$ 16,327,623	\$ 23,464,314	\$ 23,935,458
19	State Excise Tax Expense	1,328,029	1,061,295	1,525,180	1,555,805
20	Schedule M Adjustments	19,103,184	15,266,327	21,939,133	22,379,654
21	FIT Taxable Income	\$ 0	\$ 0	\$ 0	\$ 0
22	FIT Rate	35.00%	35.00%	35.00%	35.00%
23	Federal Income Tax Payable	\$ 0	\$ 0	\$ 0	\$ 0
24	FIT - Deferred	6,686,114	5,343,214	7,678,697	7,832,879
25	Federal Income Tax Expense	\$ 6,686,114	\$ 5,343,214	\$ 7,678,697	\$ 7,832,879

- A/ Attachment A to Stipulation & Settlement Agreement of 4/29/15 in Docket 14-00146.
B/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.
C/ Company Revised Filing in Docket 17-00091 from CPAD DR4-8.
D/ CPAD Workpapers.

ATMOS ENERGY CORPORATION
Revenue Conversion Factor
For the 12 Months Ending May 31, 2017

Line No.		Rate Case Settlement 14-00146 A/	ARM Reconciliation 16-00105 B/	Atmos ARM Amended 17-00091 C/	CPAD ARM Filing 17-00091 D/
1	Tax Rates:				
	Forfeited Discounts	0.010971	0.010971	0.012535	0.005558
2	Uncollectible Ratio	0.004117	0.002682	0.004981	0.002530
	State Excise Tax Rate	0.065000	0.065000	0.065000	0.065000
3	Federal Income Tax Rate	0.350000	0.350000	0.350000	0.350000
4					
	Operating Revenues	1.000000	1.000000	1.000000	1.000000
5	Forfeited Discount Adjustment	0.010971	0.010971	0.012535	0.005558
	Balance	1.010971	1.010971	1.012535	1.005558
6					
	Uncollectible Ratio Adjustment	-0.004162	-0.002711	-0.005043	-0.002544
7	Balance	1.006809	1.008260	1.007492	1.003014
8					
	State Excise Tax Adjustment	-0.065443	-0.065537	-0.065487	-0.065196
	Balance	0.941366	0.942723	0.942005	0.937818
9					
	Federal Income Tax Adjustment	-0.329478	-0.329953	-0.329702	-0.328236
10	Balance	0.611888	0.612770	0.612303	0.609582
	Revenue Conversion Factor	1.634300	1.631900	1.633200	1.640500

A/ Attachment A to Stipulation & Settlement Agreement of 4/29/15 in Docket 14-00146.

B/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.

C/ Company Revised Filing in Docket 17-00091 from CPAD DR4-8.

D/ CPAD Workpapers.

ATMOS ENERGY CORPORATION
Rate of Return Summary
For the 12 Months Ending May 31, 2017

Line No.	Class of Capital	Rate Case Settlement 14-00146 A/	ARM Reconciliation 16-00105 B/	Atmos ARM Amended 17-00091 C/	CPAD ARM Filing 17-00091 D/
Capital Structure:					
1	Short-Term Debt	5.01%	8.55%	10.41%	10.41%
2	Long-Term Debt	41.86%	38.11%	35.74%	35.74%
3	Common Equity	53.13%	53.34%	53.85%	53.85%
4	Total	100.00%	100.00%	100.00%	100.00%
Capital Cost:					
5	Short-Term Debt	1.07%	1.07%	1.24%	1.24%
6	Long-Term Debt	5.90%	5.90%	5.75%	5.75%
7	Common Equity	9.80%	9.80%	9.80%	9.80%
Weighted Cost:					
8	Short-Term Debt	0.05%	0.09%	0.13%	0.13%
9	Long-Term Debt	2.47%	2.25%	2.06%	2.06%
10	Common Equity	5.21%	5.23%	5.28%	5.28%
11	Total	7.73%	7.57%	7.47%	7.47%
Interest Expense Short-Term Debt:					
12	Rate Base	\$ 247,958,277	\$ 253,040,062	\$ 278,641,980	\$ 278,171,264
13	Short-Term Weighted Debt Cost	0.05%	0.09%	0.13%	0.13%
14	Total Short-Term Debt	\$ 123,979	\$ 227,736	\$ 362,235	\$ 361,623
Interest Expense Long-Term Debt:					
15	Rate Base	\$ 247,958,277	\$ 253,040,062	\$ 278,641,980	\$ 278,171,264
16	Long-Term Weighted Debt Cost	2.47%	2.25%	2.06%	2.06%
17	Total Long-Term Debt	\$ 6,124,569	\$ 5,693,401	\$ 5,740,025	\$ 5,730,328
18	Total Interest Expense	\$ 6,248,549	\$ 5,921,137	\$ 6,102,259	\$ 6,091,951

A/ Attachment A to Stipulation & Settlement Agreement of 4/29/15 in Docket 14-00146.

B/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.

C/ Company Revised Filing in Docket 17-00091 from CPAD DR4-8.

D/ CPAD Workpapers.

ATTACHMENT WHN-3

Calculation of Return on Equity

ATMOS ENERGY CORPORATION
Calculation of Return on Equity
For the 12 Months Ending May 31, 2017

Line No.		Amount	
1	Atmos Proposed Revenue Requirement - Normalized Tax Expense	\$ 720,734	A/
2	Atmos Proposed Revenue Requirement - Calculated Tax Expense	-2,589,384	B/
3	Increase in Revenue Requirement (Line 1 - Line 2)	\$ 3,310,118	
4	Effective Tax Rate (State and Federal)	39.52%	C/
5	Income Tax on Increased Revenue Requirement	\$ 1,308,159	
6	Increase in Net Income from Tax Calculation Methodology (Line 3 - Line 5)	\$ 2,001,959	
7	Atmos Proposed Rate Base	\$ 279,382,720	D/
8	Equity Capital Structure	53.85%	E/
9	Equity Portion of Rate Base	\$ 150,447,595	
10	Increase in Equity Return (Line 6 / Line 9)	1.33%	
11	Authorized Return on Equity	9.80%	E/
12	Effective Return on Equity (Line 10 + Line 11)	11.13%	

- A/ Atmos Response to CPAD Discovery Request 4-8, Attachment 1a, Schedule 1.
B/ Atmos Response to CPAD Discovery Request 4-8, Attachment 1b, Schedule 1.
C/ Atmos Response to CPAD Discovery Request 4-8, Attachment 1a, Workpaper 8-2.
D/ Atmos Response to CPAD Discovery Request 4-8, Attachment 1b, Schedule 7.
E/ Atmos Response to CPAD Discovery Request 4-8, Attachment 1b, Schedule 9.