BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

IN RE:

RESPONSE OF ATMOS ENERGY	**)**	
CORPORATION TO THE COMMISSION'S	**)**	
ORDER OPENING AN INVESTIGATION	**)**	**DOCKET NO. 18-00034**
AND REQUIRING DEFERRED	**)**	
ACCOUNTING TREATMENT	**)**	

PRE-FILED TESTIMONY OF JENNIFER K. STORY
ON BEHALF OF ATMOS ENERGY CORPORATION

I. POSITION AND QUALIFICATIONS

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

A. My name is Jennifer K. Story. My business address is 5430 LBJ Freeway, Suite 700, Dallas, TX 75240. I am employed by Atmos Energy Corporation ("Atmos Energy" or the "Company") as Director of Income Tax.

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. As Director of Income Tax for Atmos Energy, I am responsible for oversight and management of all income tax matters for the Company. This oversight includes ensuring that the income tax accounts recorded on the books and records accurately reflect the Company's tax filings and positions. I am also responsible for ensuring that deferred taxes are recorded on the financial statements in accordance with Generally Accepted Accounting Principles ("GAAP"). I oversee a group of tax professionals which undertakes tax planning to minimize taxes, prepare the

Company's tax filings, and defends those filings under audit. I am also responsible for the establishment of and compliance with the Company's income tax policies and controls.

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. I received my education at the University of Texas at Dallas. In 2002, I received a Bachelor of Science degree with a major in accounting. I am a licensed certified public accountant in the State of Texas.

I worked in both a large corporate tax department and in public accounting prior to joining Atmos Energy in December 2006. Since joining Atmos Energy, I have assumed the oversight and management of all income tax matters for the Company. I also serve as a representative for the Company on the American Gas Association's Tax Committee.

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

A. Yes. I have submitted direct and rebuttal testimony regarding income taxes in the following proceedings:

Regulatory Authority	Proceeding	Testimony Submitted
Kentucky Public Service Commission	Docket No. 2017-00481	Direct
Kentucky Public Service Commission	Docket No. 2017-00349	Rebuttal
Kentucky Public Service Commission	Docket No. 2018-00281	Direct
Colorado Public Utilities Commission	Proceeding No. 15AL-0299G	Rebuttal
Mississippi Public Service Commission	Docket No. 2015-UN-049	Rebuttal
Texas Railroad Commission	GUD No. 10580	Rebuttal
Texas Railroad Commission	GUD No. 10640	Rebuttal
Texas Railroad Commission	GUD No. 10742	Direct
Texas Railroad Commission	GUD No. 10743	Direct
Tennessee Public Utility Commission	Docket No. 17-00012	Direct and Rebuttal
Tennessee Public Utility Commission	Docket No. 18-00067	Direct
Virginia State Corporation Commission	Case No. PUR-2018-00014	Direct

II. PURPOSE AND SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony provides an overview of accumulated deferred income taxes and why they are an appropriate reduction to rate base. I also explain how the Tax Cuts and Job Act of 2017 ("TCJA") impacted the Company's taxes and the manner in which this will be reflected in customer rates.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. No.

III. RATEMAKING TREATMENT OF ACCUMULATED DEFERRED INCOME TAXES

Q. WHAT DO ACCUMULATED DEFERRED INCOME TAXES REPRESENT?

A. Accumulated deferred income taxes ("ADIT" or "deferred taxes") represent the balance of tax that is due or receivable in the future when items of income and expense are recognized for tax purposes in a period different than they are recognized for financial reporting purposes. ADIT simply represents the accumulated tax for all items deferred to future periods. For a regulated utility, deferred taxes represent a source of cost-free financing provided by the government.

Q. PLEASE DESCRIBE WHAT GIVES RISE TO ACCUMULATED DEFERRED INCOME TAXES.

A. Deferred taxes arise from the interaction of the Internal Revenue Code ("IRC"), the Company's accounting practices under United States ("US") generally accepted accounting principles ("GAAP"), and the Company's operations. Deferred taxes are created because of differences between the IRC and the Company's accounting under US GAAP. In addition to Federal Energy Regulatory Commission ("FERC") rules, the Company's records are maintained according to US GAAP which provide guiding principles and requirements as to when and how the Company records its financial results. Likewise, the IRC and related regulations provide the rules and requirements the Company follows when completing its tax filings. There are numerous differences between US GAAP and the IRC. Examples include, but are not limited to, differences in the recognition of income or expense, time period or methods by which assets are depreciated and the capitalization of costs. Many of these differences are temporary in nature, meaning the total amount of income or expense recognized for an item is the same under US GAAP and the IRC, but the time period over which it is recognized is different.

Q. DO THE DIFFERENCES YOU DESCRIBE RESULT IN DEFERRED TAX ASSETS OR LIABILITIES?

A. Both.

Q. WHAT CREATES A DEFERRED TAX LIABILITY?

A. A deferred tax liability ("DTL") is created when the tax liability differences I described result in a temporary decrease to taxable income or the acceleration of a tax deduction.

A common example is the difference associated with the capitalization of costs or the time period or methods by which assets are depreciated. For example, an item purchased by the Company for $100 may be capitalized and depreciated over a 30 year period under US GAAP. The IRC may permit that same item to be depreciated over a 15 year period. There is no difference in the depreciation deductions over time in that US GAAP and the IRC permit the Company a $100 depreciation deduction. However, that deduction is realized over different time periods. It is this difference in timing between the US GAAP and the IRC that give rise to a deferred tax liability. These timing difference in the depreciation deductions decrease the utility's current tax liability and therefore increase the utility's funds in the current period. However, its future tax liability will be increased and those funds will be remitted to the government in the future. The net effect is that the government has lowered the utility's tax payment due to the accelerated depreciation. This temporary reduction in tax will be paid by higher tax bills in the future. Due to the difference in timing required by the IRC, the Company has deferred recognition of tax liabilities to a future period.

Q. WHAT CREATES A DEFERRED TAX ASSET?

A. A deferred tax asset ("DTA") is created when the tax liability differences I described result in a temporary increase to taxable income or the deferral of a tax deduction.

A common example is the difference associated with retirement or compensation plans. IRS rules generally limit the deduction of retirement or compensation until the time at which the benefit is paid. For book purposes, these plans accrue expense as the participant's benefits accumulate. The result is expenses are realized on the books for the accrual of the benefits but no deduction is taken on the tax return until the participant is paid. These delayed deductions increase the utility's current tax liability and therefore reduce the utility's funds in the current period. However, its future tax liability will be decreased and those funds will be returned to the utility in the future. The net effect is that the utility has advanced to the government a tax payment by virtue of a higher current tax bill due to the denial of a deduction until a later date. The tax advance will be recouped by lower tax bills in the future.

Q. WHEN TAKING INTO ACCOUNT THE SUM OF ALL DEFERRED TAX ASSETS AND LIABILITIES, IS THE NET DEFERRED TAX AN ASSET OR LIABILITY?

A. In almost all cases for regulated companies and in the Company's filings, the sum of all DTAs and DTLs results in a net deferred tax liability or ADIT liability.

Q. HOW ARE DEFERRED TAXES TREATED FOR RATEMAKING PURPOSES?

A. For purposes of rate making, an ADIT liability represents a cost-free loan provided by the government to the utility by way of lower current tax payments. Therefore, it is appropriate that rate base should be reduced for the amount of the ADIT liability to reflect this amount. This allows customers to receive the benefit of the cost-free loan and not pay a rate of return on rate base financed at no cost.

Q. HOW IS THE LOAN REFLECTED ON A UTILITY'S BOOKS AND RECORDS?

A. The balance of the cost-free loan is reflected as the net ADIT liability recorded on the Company's books and records. An ADIT liability is quite simply the amount of the cost-free loan.

Q. IS THE REDUCTION OF RATE BASE FOR NET ADIT LIABILITIES A STANDARD REGULATORY RATEMAKING PRACTICE?

A. Yes. This is the widely accepted treatment of ADIT liabilities and it is accepted in every state in which the Company operates.

Q. DOES THE INTERNAL REVENUE CODE HAVE REQUIREMENTS REGARDING THE TREATMENT OF DEFERRED TAXES AS A REDUCTION TO RATE BASE?

A. Yes.

Q. PLEASE DESCRIBE THOSE REQUIREMENTS.

A. The IRC requires that the deferral of tax associated with tax depreciation and any associated tax net operating loss be normalized. Accelerated depreciation was enacted by Congress as an investment incentive for businesses. In a regulated environment, Congress was concerned that the tax savings from accelerated depreciation would be flowed through to customers thereby negating the incentive it sought to create. To discourage utilities and commissions from flowing the incentive through to customers, Congress enacted the depreciation normalization rules.

The tax depreciation normalization rules mandate the normalization process. A normalization method of accounting for taxes in its simplest terms strives to keep this incremental cash received from the interest-free loan at the utility level where Congress intended. Tax expense in its cost of service and rate filings are normalized and not artificially lowered for the cash tax savings. In return, rate base is reduced by the amount of the accumulated tax deferred. Such an approach is mutually beneficial both for customers and the utility. Customers are not paying a return on rate base financed with the cost-free loan that the utility receives from the government.

Failure to adhere to the normalization rules would result in the loss of the utility's ability to claim accelerated tax depreciation on future tax returns.

IV. THE IMPACT OF THE REDUCTION IN FEDERAL CORPORATE TAX RATE ON THE COMPANY'S FINANCIAL OPERATIONS

Q. PLEASE PROVIDE A HIGH-LEVEL OVERVIEW OF THE IMPACTS TO THE COMPANY'S FINANCIAL POSITION RESULTING FROM THE REDUCTION IN FEDERAL CORPORATE TAX RATE ENACTED WITH THE TAX CUTS AND JOB ACT OF 2017 ("TCJA").

A. The Company will realize two significant changes to its financial positions a result of the federal corporate income tax rate reduction. First, the Company has immediately seen a decrease in the tax liability associated with current earnings and the resulting tax expense included as a component of cost of service. A second significant impact is a reduction in the future tax liabilities for which the Company has previously established deferred taxes. This reduction in future tax liabilities is the result of the reduction in the federal corporate income tax rate. This is because when a law is enacted changing the federal income tax rate, the ADIT balance on the Company's books must be remeasured so as to account for the reversal of deferred taxes in future years that will be taxed at the 21% tax rate instead of the 35% tax rate at which the deferred taxes were accrued. In other words, the amount recorded on the Company's books prior to the tax law change is in excess of what the Company expects to pay the government in the future. Therefore, as a result of the TCJA, the Company had on its books at the date of enactment an excess of deferred taxes. This excess balance is often referred to as EDIT or EDFIT.

Q. WHAT ADJUSTMENTS TO ITS BOOKS AND RECORDS HAS THE COMPANY MADE AS A RESULT OF THE REDUCTION IN FEDERAL CORPORATE TAX RATES?

A. The Company has lowered the statutory tax rate used to calculate tax expense on its books and the cost of service requested in its Annual Review Mechanism ("ARM") filing to reflect the new corporate rate enacted in the TCJA. For the deferred taxes on its books, the Company has revalued those balances at the new statutory rate. The Company established a regulatory liability equal to the excess deferred taxes associated with items in rate base for each of the eight jurisdictions in which it operates. The Company will flow this regulatory liability to customers in a manner that conforms with the Internal Revenue Code and the regulators in each jurisdiction. The Company has also recognized a tax benefit for the excess deferred taxes associated with items not included in rate base or unrelated to regulated operations. Please note that the manner in which the Company reflected the impacts of the reduction in federal tax rate was the subject of discovery in Docket No. 18-00067. This discovery has been filed in this docket per the Order approving the Joint Filing of Proposed Procedural Schedule.

Q. DOES THE TCJA SPECIFY HOW THE REGULATORY LIABILITY FOR EXCESS DEFERRED TAXES SHOULD BE AMORTIZED TO CUSTOMERS?

A. Yes. Section 13001 (d) of the TCJA specifically addresses the return of excess deferred income taxes. The TCJA requires that the amortization of excess deferred taxes comply with the IRC normalization requirements and prohibits utilities from reducing the reserve for excess deferred income taxes more rapidly or to a greater extent than such reserve would be reduced under either the Average Rate Assumption Method ("ARAM") or the alternative method referred to as the Reverse South Georgia method ("RSG").

Q. WHAT METHODOLOGY WILL THE COMPANY USE TO AMORTIZE EXCESS DEFERRED TAX LIABILITIES?

A. The Company will amortize excess deferred taxes utilizing the alternative RSG method.

Q. PLEASE DESCRIBE THE RSG METHOD OF AMORTIZING EXCESS DEFERRED TAX LIABILITIES.

A. RSG amortizes the excess deferred taxes back over the life of the underlying property that gave rise to the excess. Under this method a taxpayer computes the excess tax reserve on all public utility property included in the plant account and amortizes such reserve on the basis of the weighted average life or the composite rate used to compute depreciation for regulatory purposes. This method reduces the excess tax reserve ratably over the remaining regulatory life of the property.

Q. PLEASE EXPLAIN WHY THE COMPANY MUST USE THE RSG METHOD.

A. The Company maintains its accounting records in accordance with FERC requirements and Generally Accepted Accounting Principles. Book depreciation is computed using rates approved in the jurisdictions the Company operates in. In order to use the ARAM, the Company must calculate and track accumulated depreciation for assets by vintage. Since this methodology is not required by the FERC rules applicable to Atmos Energy or the methodology required in Tennessee, the Company has determined that it does not possess the appropriate records necessary to utilize the ARAM. Therefore, the Reverse South Georgia method must be used.

Q. DO THE NORMALIZATION REQUIREMENTS SPECIFY WHICH EXCESS DEFERRED INCOME TAXES MUST BE AMORTIZED USING RSG?

A. Yes. Utility property related excess deferred income taxes associated with depreciation must be amortized using RSG. Property related excess deferred taxes are those excess deferred taxes created by differences in book and tax methods for depreciable assets (i.e. pipe, vehicles, facilities, etc.). In addition, the Company's deferred tax asset for tax net operating losses are also protected by the IRC normalization provisions. Therefore the excess deferred income taxes resulting from tax net operating losses must also be amortized over the same period as the property related excess deferred income taxes.

Q. WHAT IS THE PENALTY FOR NOT COMPLYING WITH THE IRC RULES FOR AMORTIZING PROTECTED EXCESS DEFERRED TAX LIABILITIES?

A. The Internal Revenue Service will assert a normalization violation for any taxpayer who reduces the excess tax reserve more quickly than the reserve would be reduced under the allowable methods. A normalization violation results in the taxpayer's tax for the taxable year being increased by the amount by which it reduced the excess tax reserve more quickly than permitted. In addition, the taxpayer would lose the ability to deduct accelerated tax depreciation in the future and instead would only be allowed to deduct for tax purposes the amount of depreciation expensed for regulatory reporting purposes. This would eliminate future growth of the ADIT offset to rate base for depreciation, which would effectively increase rate base, thus resulting in a higher overall cost of service with a corresponding increase in customer bills.

Q. DOES THE TCJA OR IRC SPECIFY THE METHODOLOGY FOR AMORTIZATION OF EXCESS DEFERRED INCOME TAXES THAT ARE NOT PROPERTY RELATED?

A. No.

Q. HOW DOES THE COMPANY PROPOSE TO AMORTIZE NON-PROPERTY RELATED EXCESS DEFERRED TAXES?

A. The Company proposes to amortize all excess deferred taxes, both property related and non-property related, over the amortization period determined using the RSG method. With respect to the Company's non-property related excess deferred tax balance, it is also relevant to note that the balance on the Company's books is a net asset. Use of the RSG for non-property related excess deferred tax balance therefore benefits ratepayers by extending the period over which that balance must be repaid to the Company.

Q. WHAT ESTIMATED AMOUNTS WERE INCLUDED IN THE COMPANY'S MOST RECENT ARM FILING?

A. The estimated excess deferred tax liability included in Docket No. 18-00067 is $27.7 million. The regulatory liability the Company established for Tennessee excess deferred income taxes includes some estimated amounts that will be refined as the Company completes its accounting for its September 30th fiscal year end. In addition, the Company has estimated that the period for amortizing the regulatory liability for excess deferred income taxes is 28 years.

Q. WHY HAS THE COMPANY ESTIMATED THE AMOUNT OF THE REGULATORY LIABILITY FOR EXCESS DEFERRED INCOME TAXES?

A. The Company's fiscal year end is September 30th. The TCJA was signed into law on December 22, 2017, during the Company's first quarter of fiscal year ending September 30, 2018. Cumulative timing differences which generate ADIT are calculated based on the Company's fiscal year end. Until the Company has completed its year end and the book accounting for items giving rise to cumulative temporary differences are completed, estimates of the current year deferred taxes and resulting amounts to be recorded to the regulatory liability have been used.

Q. WHEN WILL THE COMPANY FINALIZE THE AMOUNT OF THE TEXAS REGULATORY LIABILITY FOR EXCESS DEFERRED INCOME TAXES?

A. First, the Company will refine its estimate of the cumulative differences generating the excess deferred taxes as part of the annual tax provision calculation performed in October 2018. The Company will have exact amounts after the filing of its federal income tax return in July, 2019.

Q. WHY HAS THE COMPANY ESTIMATED THE AMORTIZATION PERIOD OF THE REGULATORY LIABILITY FOR EXCESS DEFERRED INCOME TAXES?

A. The Company must first finalize the computation of the regulatory liability for excess deferred income taxes prior to finalizing the amortization for this amount. In addition, the Company's tax systems are currently being modified in order to calculate amortization using RSG. Until such modifications are complete and the Company is able to perform a full and detailed computation of amortization, a high-level estimate has been prepared for use in this filing.

Q. ARE THE ESTIMATES FOR THE REGULATORY LIABILITY FOR EXCESS DEFERRED INCOME TAXES AND AMORTIZATION PERIOD REFERENCED IN THIS FILING AND INCLUDED IN DOCKET 18-00067 THE SAME AS THOSE INCLUDED IN THE COMPANY'S INITIAL RESPONSE IN THIS DOCKET?

A. No. Both the estimate of the regulatory liability and the amortization period differ slightly from amounts reported by the Company in its initial response to the Commission's investigation into the impacts of the TCJA in this docket.[1]

Q. WHY IS THE ESTIMATE OF THE REGULATORY LIABILITY AMOUNT DIFFERENT?

A. The Approved Methodologies for the ARM Tariff require the Company to utilize a Historic Base Period ended September 30. Only fixed-asset-related ADIT items are permitted to be projected beyond this base period. The Company determined the appropriate regulatory liability amount to include in Docket No. 18-00067 by revaluing September 30, 2017 ADIT balances using the new statutory federal rate. This calculation resulted in a regulatory liability of $27.7 million. The Company's initial response in this docket included the $29.3 million of Tennessee excess deferred income taxes recorded on the Company's financial statements at December 31, 2017. As I have described in my testimony, the final amount for the regulatory liability will not be known until the Company files its tax return in July, 2019.

Q. WHY IS THE ESTIMATE OF THE AMORTIZATION PERIOD DIFFERENT?

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[1] *See In re: Response of Atmos Energy Corporation to the Commission's Order Opening an Investigation and Requiring Deferred Accounting Treatment*, Docket No. 18-00034, *Atmos Energy Company Response to Order Opening Investigation* (March 29, 2018).

A. As I have described in my testimony, modifications to the Company's tax systems are currently being made in order to calculate the amortization period for the excess deferred income taxes. At the time of the Company's initial response in this docket, the Company only had data available to compute a very high-level system-wide amortization period that included operations in all of its regulated jurisdictions. This estimate was 24 years. While modifications are not yet complete and the amortization period remains an estimate, the Company has additional data available to refine that estimate and currently estimates 28 years for amortization of excess deferred income taxes in Tennessee. The Company expects the system modifications to be complete and the amortization period to be finalized prior to the finalization of the regulatory liability in 2019. As these amounts are finalized, true-ups to estimates of the regulatory liability and amortization period will be reflected in customer rates through future ARM and Reconciliation filings.

V. CONCLUSION

Q. DOES THE COMMISSION NEED TO DO ANYTHING IN THIS PROCEEDING IN ORDER TO REFLECT THE CHANGES CAUSED BY THE TCJA IN THE COMPANY'S RATES?

A. No. The Company has a comprehensive ARM in Tennessee, and its normal functioning will properly allow for all TCJA changes to be reflected in the Company's rates.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

IN RE:

RESPONSE OF ATMOS ENERGY CORPORATION TO THE COMMISSION'S ORDER OPENING AN INVESTIGATION AND REQUIRING DEFERRED ACCOUNTING TREATMENT	)))))	**DOCKET NO. 18-00034**

VERIFICATION

STATE OF TEXAS)

COUNTY OF DALLAS)

I, Jennifer K. Story, being first duly sworn, state that I am Director Income Tax for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Direct Testimony of Jennifer K. Story in support of Atmos Energy Corporation's filing is true and correct to the best of my knowledge, information and belief.

Jennifer K. Story

Jennifer K. Story

Sworn and subscribed before me this 8 day of October, 2018.

Notary Public

My Commission Expires: 5/25/22

MARIA S. WILSON
Notary Public, State of Texas
Comm. Expires 05-25-2022
Notary ID 131582768