

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-02
Page 1 of 1

REQUEST:

Consumer Advocate Request No. 1-03 Attachment 5 sets out the book/tax timing differences for each of the applicable Atmos Divisions. Within Tab No. 093, there is a line item entitled "State Net Operating Loss". With respect to this line item, provide the following information:

- a. All supporting documentation for the balance at September 30, 2017 of \$2,181,145.
- b. A comprehensive discussion describing how this balance was calculated for Division 093.

RESPONSE:

- a. Please see Attachment 1.
- b. Refer to Attachment 1. The balances shown through 9/30/2016 are the amount of Tennessee income or loss, as reported on the filed state income tax returns for Atmos Energy Corporation. The loss amount for 9/30/2017 is the estimated amount of Tennessee loss for the fiscal year ended 9/30/2017 calculated during the annual provision. The net operating loss deferred tax asset resulting from filed Tennessee state tax returns and FY17 provision is recorded on Division 093.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, CPAD_2-02_Att1 - State Net Operating Loss.xlsx, 1 Page.

[illegible]

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-03
Page 1 of 1

REQUEST:

Consumer Advocate Request No. 1-03 Attachment 5 sets out the book/tax timing differences for each of the Atmos' Divisions. Within Tab No. 093, there is a line item entitled "State Bonus Depreciation". With respect to this line item, provide the following information:

- a. All supporting documentation for the Company's balance at September 30, 2017 of \$2,181,145.
- b. A comprehensive discussion describing how this balance was calculated for Division 093.

RESPONSE:

- a. Please see Attachment 1. The Company notes the amount listed in a., above is \$2,181,145 however the amount in No. 1-03 Attachment 5 "State Bonus Depreciation" book/tax timing difference is \$2,738,212, not \$2,181,145.
- b. Refer to Attachment 2. The balances shown through 9/30/2016 are the amount of Tennessee bonus depreciation adjustments, as reported on the filed state income tax returns for Atmos Energy Corporation. The bonus depreciation adjustment for 9/30/2017 is the estimated amount of Tennessee bonus depreciation adjustment for the fiscal year ended 9/30/2017 calculated during the annual provision. The state bonus depreciation deferred tax asset resulting from filed Tennessee state tax returns and FY17 provision is recorded on Division 093.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, CPAD_2-03_Att1 - State Bonus Depreciation.xlsx, 1 Page.

Atmos Energy Corporation
Docket No. 18-00067
Second Informal Discovery Request
Question 2-3 Attachment 1
State Bonus Depreciation

Unless noted, amounts are from Tennessee state tax returns filed by Atmos Energy Corporation

Bonus Depreciation Adjustment	
<u>Fiscal Year:</u>	
9/30/2002	35,240,411
9/30/2003	40,156,184
9/30/2004	51,541,313
9/30/2005	19,627,367
9/30/2006	(10,112,612)
9/30/2007	(2,352,266)
9/30/2008	105,382,507
9/30/2009	85,410,595
9/30/2010	83,281,884
9/30/2011	196,448,894
9/30/2012	168,027,303
9/30/2013	151,015,746
9/30/2014	113,113,662
9/30/2015	122,740,124
9/30/2016	218,547,195
9/30/2017 **	76,794,123 **estimated bonus depreciation adjustment calculated at FY17 annual provision
Total Balance	1,454,862,430
TN Apportionment	4.4547% use last filed return apportionment=FY16
TN Tax Rate	6.50%
Federal Tax Rate at 9/30/2017	35.00%
State Bonus Depreciation DTA	2,738,212
Amount in 1-03 Attachment 5	2,738,212
Difference	0

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-04
Page 1 of 1

REQUEST:

Consumer Advocate Request No. 1-03 Attachment 6 - Tab "TN" and Division 093 includes a line item entitled "State Net Operating Loss". This line item in both tabs is categorized as "Non-Plant". Given the Atmos' position regarding the application of the "With and Without Methodology:

- a. Provide the Company's comprehensive explanation and reasoning for the designation of the State Net Operating Loss as "Non-Plant" Related.
- b. Provide all documents supporting the Company's designation.

RESPONSE:

- a. The Company recognizes that a portion of the Tennessee state net operating loss carryforward is protected by the normalization provisions, since Tennessee tax depreciation exceeds book depreciation. Tennessee has decoupled from the federal bonus depreciation provisions so Tennessee tax depreciation is much lower than federal tax depreciation.

Although the Company has not performed the computations, it believes that the amount of Tennessee state net operating loss carryforward protected by the normalization provisions using the with and without methodology would be only a portion of the total state net operating loss carryforward. Likewise, only a portion of the excess deferred taxes associated with the Tennessee state net operating loss carryforward would be protected and required to be flowed to customers using RSGM. The remaining regulatory asset for excess deferred taxes for this state net operating loss carryforward would be classified as unprotected or "non-plant."

The Company has proposed to flow back all excess deferred income taxes over the same period, using RSGM, for administrative ease and customer benefit. Atmos Energy has not sought to recover from customers any regulatory asset for excess deferred taxes more quickly than it proposes to flow back to customers the associated regulatory liabilities.

- b. Not applicable.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-05
Page 1 of 1

REQUEST:

The Company's response to the Consumer Advocate Request No. 1-9 reflects the buildup of the NOLC by line item. One of the material line items is entitled the Repairs Deduction (See Reference "FXA44"). Provide:

- a. The Repairs Deduction taken by year, and broken down by division for the period 2010 - 2017;
- b. Explain the Company's reference to "FXA44" associated with this deduction; and
- c. Provide all documents supporting the Company's designation.

RESPONSE:

- a. Please see Attachment 1 for the repairs deduction taken in the Tennessee division (093). Repairs are calculated separately for each operating division. The Company does not calculate or allocate repairs from the general office division (091) or from the shared services division.
- b. The Company's reference to "FXA44" is merely a Company created code to separately show the repair deduction amount on the Company's Federal Income Tax Return, Form 1120. Please see the Company's response to CPAD DR No. 1-22 for a discussion regarding the inclusion of the repairs deduction related ADIT in the fixed asset cost adjustment ADIT line item. Please note that the book/tax differences for depreciation related to repairs are included in the fixed asset depreciation ADIT line item.
- c. All documents supporting the Company's designation have been provided in this and previous responses included in this docket.

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, CPAD_2-05_Att1 - Repairs Deduction in Div 093.xlsx, 1 Page.

Atmos Energy Corporation
Docket No. 18-00067
Second Informal Discovery Request
Question 2-5 Attachment 1
Repairs Deduction in Division 093

	Division 093	
	Repairs Deduction	
9/30/2009	(6,532,874)	
9/30/2010	(5,780,634)	
9/30/2011	(6,508,106)	
9/30/2012	(6,186,775)	
9/30/2013	(6,104,295)	
9/30/2014	(12,072,097)	
9/30/2015	(11,142,193)	
9/30/2016	(8,771,959)	
9/30/2017 **	(11,683,343)	**estimated repairs deduction calculated at FY17 annual provision
	(74,782,275)	

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-06
Page 1 of 1

REQUEST:

The Company's response to the Consumer Advocates Request No. 1-15 parts a and b does not specifically identify the particular book/tax timing differences which were recorded to Operating Results in December 2017.

- a. Identify each of the timing differences (the tax affected net ADIT Asset (Liability) balance) which were written off as a result of the TCJA.
- b. For each timing difference, provide an explanation and reasons supporting the Atmos' conclusion that these balances were not generated in the provision of utility service.
- c. Provide all documents supporting the Company's timing differences.

RESPONSE:

- a. Please see Attachment 5 to the Company's response to CPAD DR No. 1-03 labeled "TCJA Impacts on Atmos Books 12-31-17.xlsx," "Total TN" tab, Columns L through O for the amounts related to Tennessee operations that were recorded to operating results in December 2017.
- b. The Company followed the Approved Methodologies to determine which ADIT balances were not included in rate base. Also, please see the Company's response to CPAD DR No. 1-15 subpart (b).
- c. The documents supporting the Company's timing differences have been provided in previous responses included in this docket. Please refer to Attachment 5 provided to the response to CPAD DR No. 1-03, "TCJA Impacts on Atmos Books 12-31-17.xlsx" and the book to tax walk attachments provided in Company response to CPAD DR No. 1-09.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-07
Page 1 of 2

REQUEST:

Refer to Company's response to Consumer Advocate Request No. 1-13, specifically to the description of components of the Company's November 2017 balance of the ADIT:

- a. Confirm that it is the Company's position that the Repairs Deduction should fall under the category "Fixed Asset Cost Adjustment".
- b. If this is not the Company's position, identify the category(ies) where the Repair Deduction can be found.
- c. Provide all documents supporting the Company's position.
- d. If Atmos contends that the Repairs Deduction falls under the Category identified as "Section 481(a) Tangible Property Regulations", explain why the Company's position and reasoning given the Regulation was not implemented until 2013, while the Repair Deductions was utilized by Atmos at least as early as 2010.

RESPONSE:

- a. Confirmed. The Company does include the ADIT related to the repairs deduction in the fixed asset cost adjustment ADIT line item. Please see the Company's response to CPAD DR No. 1-22 for a discussion regarding the repairs deduction related ADIT.
- b. Not applicable.
- c. Not applicable.
- d. The Section 481(a) adjustment resulting from the Tangible Property Regulations ("TPR") was recorded on the Company's books and records upon enactment of the final regulations, effective for tax years beginning on or after January 1, 2014. This adjustment reflects additional taxable income that the Company is required to recognize on tax returns as a result of conforming to the TPR. Please see the Company's response to 1-13 for a more detailed explanation.

When a change in tax accounting increases taxable income, such as conformity to enacted regulations such as the TPR, the Company is required to recognize a deferred tax liability equal to the full amount of the change at the time of enactment. As the increase to taxable income is recognized on the Company's tax returns in each of the following four years, the deferred tax liability for the 481(a) adjustment is amortized down. The Company's ADIT item for Section 481(a) Tangible Property Regulations simply represents that portion of the deferred tax liability that has not yet been recognized on the Company's tax returns.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-07
Page 2 of 2

Upon enactment of the TPR, the Company was also required to record an adjustment to ADIT to reflect the reduction in repairs-related basis differences. This adjustment was recorded to the fixed asset cost adjustment ADIT line item. Therefore, all basis adjustments relating to the repairs deduction, including the adjustment recorded upon enactment of the TPR, are included in the fixed asset cost adjustment ADIT line item.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-08
Page 1 of 1

REQUEST:

Regarding the Company's response to Consumer Advocate Request No. 1-36, explain how the reimbursable amounts have been reflected within the Company's filing.

RESPONSE:

The reimbursements shown are for the estimated cost of engineering for these projects. Upon completion of the project, the engineering cost will be invoiced to TDOT based on actual dollars spent for that activity. The reimbursement amounts were not reflected in the filing because, at the time of the filing, the public improvement projects had not been approved by TDOT. Time has since passed and these projects have now been approved by TDOT and the Company has completed TDOT Utility Form 2016-13 which figures the reimbursable amount. The reimbursable amounts listed in the Company's response to CPAD DR No. 1-36 were the result of the paperwork completion. In summary, reimbursable amounts were not included in the initial budget which is the basis for the filing due to their unknown status. Like all components of cost of service, they will be included in the reconciliation.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-09
Page 1 of 1

REQUEST:

Identify the year in which Atmos first utilized the Repair Deduction. Provide this response by Division if the deduction was first taken in differing periods.

RESPONSE:

Atmos Energy first utilized the repairs deduction on its fiscal year ended 9/30/2009 federal income tax return.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-10
Page 1 of 1

REQUEST:

Provide a comprehensive and detailed discussion of the steps required to adjust the budgeted period ADIT balances that would be necessary to avoid a normalization violation assuming a given adjustment in budgeted plant in service balances.

RESPONSE:

To avoid a normalization violation, budgeted period ADIT balances need to be recalculated if adjustments are made to the budgeted plant in service balances. The Company would recalculate the budgeted tax cost and tax depreciation and update the FXA01 and FXA02 ADIT balances. Since ADIT is an adjustment to rate base, this would also necessitate a change to the budgeted NOLC balance so that total tax expense included in the filing is equal to net deferred tax expense. The adjustment to the ADIT liability and the NOLC asset (DTA) would satisfy the normalization requirements.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-11
Page 1 of 1

REQUEST:

Provide the docket number(s) in each state in which Atmos operates which it is addressing the impact of the Tax Cut and Jobs Act either in a distinct docket, or as part of a rate case filing.

RESPONSE:

Colorado: Proceeding No. 17AL-0429G; Proceeding No. 18M-0074EG

Kansas: Docket No. 18-GIMX-248-GIV

Kentucky: Case No. 2017-00349; Case No. 2018-00039

Louisiana: Docket Nos. U-34714, U-34803 and R-34754

Mississippi: Docket No. 2018-AD-12

Texas: GUD No. 10695

Virginia: Case No. PUR-2018-00014

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-12
Page 1 of 1

REQUEST:

Is it the position of Atmos that due to its requirement to rely upon the Reverse South Georgia Method, it then follows that the Repair Deduction is protected?

RESPONSE:

Confirmed. It is the Company's position that due to its requirement to rely upon the Reverse South Georgia Method, the repairs deduction is plant related and should be subject to the normalization provisions. As stated in the Company's response to CPAD DR No. 1-14, when using RSGM, a taxpayer computes the excess tax reserve on all public utility property included in the plant accounts and amortizes such reserve on the basis of the weighted average life or the composite rate used to compute depreciation for regulatory purposes. The excess tax reserve on all public utility property are those excess deferred taxes created by differences in book and tax methods for depreciable assets. Also described in the Company's response to 1-14, since the Company does not calculate and track accumulated depreciation for assets by vintage, the Company is unable to separate the ADIT related to specific basis adjustments between the amount included in the Fixed Asset Cost Adjustment ADIT item and the Depreciation Adjustment ADIT item.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-13
Page 1 of 1

REQUEST:

Hypothetically, if Atmos' plant records were sufficient to use the Average Rate Assumption Method (ARAM) then the Repair Deduction would be unprotected?

RESPONSE:

Yes, hypothetically, if the Company's records were sufficient to use the Average Rate Assumption Method (ARAM), the repair deduction would not be subject to the normalization provisions. If the Company were able to track the vintage level accumulated depreciation then the records would exist to track and record the individual basis adjustments net of related accumulated depreciation book to tax differences. Since the Company does not calculate and track accumulated depreciation for assets by vintage, the Company is unable to separate the ADIT related to specific basis adjustments between the amount included in the Fixed Asset Cost Adjustment ADIT item and the Depreciation Adjustment ADIT item.

As a reminder (see CPAD DR No. 1-14), Atmos Energy maintains its accounting records in accordance with FERC requirements and Generally Accepted Accounting Principles. Book depreciation is computed using rates approved in the jurisdictions Atmos operates in. In order to use ARAM, Atmos Energy would need to calculate and track accumulated depreciation for assets by vintage. Since the ARAM methodology does not align with the FERC accounting records requirements applicable to Atmos Energy, or the methodology required in Tennessee, Atmos Energy did not create and thus does not possess the types of records necessary to use ARAM. Instead, the RSG must be used.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-14
Page 1 of 1

REQUEST:

Provide a comprehensive discussion addressing the relationship between the ability to qualify for ARAM and the impact it has on the designation of the Repair Deduction.

RESPONSE:

As stated in the Company's response to CPAD DR No. 2-13, if a Company has the vintage level records available to use ARAM, the Company would be able to track all book to tax differences in cost and accumulated depreciation to compute a total ADIT item related to individual basis adjustments. As stated in the Company's response to CPAD DR NO. 2-12, the Company does not have the vintage level detail available to compute accumulated depreciation and the Company is unable to separate out the total book to tax differences attributed to individual basis adjustments. Since the vintage level accumulated depreciation is not separated out in the Company's ADIT items, in order to avoid a normalization violation the alternative method (RSG) is used and applies to all plant related items.

Docket No. 18-00067
Atmos Energy Corporation, Tennessee Division
CPAD Informal DR Set No. 2
Question No. 2-15
Page 1 of 1

REQUEST:

Provide the calculation supporting the imputed level of stated Net Operating Loss Carryover contained in this budget revenue requirement.

RESPONSE:

The calculation of the NOLC forecast that appears on WP7-1 was the subject of data request CPAD 1-05 in Docket No. 16-00013, which was the docket in which the forecast methodology was adopted as part of the Approved Methodologies. For convenience, the relevant parts of that response are repeated here. The \$822,238 in the response below corresponds to the \$(3,406,404) in the instant filing. Also, the Company now uses the "iterative calculation" function in excel rather than "goal seek". The results are identical.

In the instant filing, the starting ADIT balance from December 2017 was used (rather than September 2017 which is the end of the Historic Base Period) to properly account for the recalculation of ADIT in December 2017 caused by TCJA.

"The \$822,238 referenced in the request is the amount of change in the NOLC necessary for the total change in ADIT from the Historic Base Period to the Forward Looking Test Year to equal the amount of tax expense included in the Company's cost of service. The amount on line 189 of WP 7-1 is equal to the amount on Schedule 1 line 11 and is the tax expense included in cost of service calculated at the statutory rate. The amount on line 191 of WP 7-1 is the total change in the deferred tax balance between the Historic Base Period and Forward Looking Test Year prior to forecasting the change in NOLC. The \$822,238 on line 192 was calculated using the "goal seek" function in Microsoft Excel. The goal seek function was set to make the sum of lines 189 and 194 equal to zero by changing the cell on line 192 in column f (the \$822,238 change in NOLC). The goal seek function runs iterations of calculations through all linked cells until the specified criteria (difference between change in ADIT and income tax expense equal to zero) is met. As the footnote on line 207 identifies, because the Company is in a net loss position, all of the tax expense included in cost of service is deferred and therefore must be equal to the total change in deferred taxes (ADIT).

It is important to note that, due to the Annual Reconciliation to Authorized Return on Equity, as defined and described in section VII of the ARM tariff, the forecasted NOLC balance will be replaced by the actual allocable NOLC balance when the Company files the reconciliation. Thus, the ultimate revenue requirement associated with the NOLC balance will be unaffected by the methodology described above, and it ultimately will have no impact on ratepayers."