

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**IN RE:**

**PETITION OF ATMOS ENERGY CORPORATION     )  
FOR APPROVAL OF ITS 2018 ANNUAL RATE        ) DOCKET NO. 18-XXXXX  
REVIEW FILING PURSUANT TO TENN.             )  
CODE ANN. § 65-5-103(d)(6)                    )**

**PRE-FILED TESTIMONY OF GREGORY K. WALLER  
ON BEHALF OF ATMOS ENERGY CORPORATION**

**I. INTRODUCTION OF WITNESS**

- 1
- 2   **Q.     PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**
- 3   A.     My name is Gregory K. Waller. I am Manager, Rates and Regulatory Affairs with
- 4           Atmos Energy Corporation (“Atmos Energy” or “Company”). My business address
- 5           is 5420 LBJ Freeway, Ste. 1600, Dallas, Texas 75240.
- 6   **Q.     PLEASE    STATE    YOUR    EDUCATION    AND    PROFESSIONAL**
- 7           **BACKGROUND.**
- 8   A.     I received a Bachelor of Arts degree in economics from Dartmouth College in 1994
- 9           and an MBA degree from the University of Texas in 2000. I worked as a
- 10          management consultant from 1994 to 2003, at Harbor Research in Boston, MA
- 11          (1994-1996) and at Towers Perrin in Dallas, TX (1997-2003). I joined Atmos Energy
- 12          in 2003 in the Planning and Budgeting Department in Dallas. In November of 2005 I
- 13          became Vice President of Finance for the Kentucky/Mid-States Division, which
- 14          includes the Company’s regulated Tennessee operations. I assumed my current role
- 15          in Dallas, TX in July 2012.

1 Q. WHAT ARE YOUR RESPONSIBILITIES AT ATMOS ENERGY?

2 A. I am responsible for managing rate proceedings filed primarily with state regulatory  
3 bodies on behalf of the Company. My responsibilities include execution of  
4 applications for changes to rates and tariffs as part of traditional rate cases, tariff  
5 language change proposals, and annual rate making mechanisms that the Company  
6 files in the eight states in which it has regulated operations.

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

9 A. Yes. I testified before the Tennessee Public Utility Commission (“Commission”) in  
10 Docket Nos. 05-00258, 16-00105, 17-00012 and 17-00091. I also submitted  
11 testimony in Docket Nos. 07-00105, 08-00197, 12-00064, 14-00081, 14-00146 and  
12 16-00013. I testified before the Kentucky Public Service Commission in 2014 and  
13 2018, and the Georgia Public Service Commission in 2008, 2009 and 2011. I  
14 submitted direct testimony in the Company’s rate proceedings in Kentucky (2006,  
15 2009, 2013, 2015 and 2017) and Virginia (2008, 2013, 2014, 2016 and 2018).

16 **II. PURPOSE OF TESTIMONY**

**17 O. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 A. The purpose of my testimony is to calculate the Company's Annual Revenue  
19 Requirement for the Forward Looking Test Year that ends May 31, 2019, as  
20 prescribed in Section IV of the Company's Annual Review Mechanism ("ARM")  
21 tariff. The resulting revenue requirement is the amount of additional revenue or  
22 reduction in rates required for the Company to earn its authorized return on equity for  
23 the Forward Looking Test Year ending May 31, 2019, in accordance with the  
24 approved methodologies ("Approved Methodologies") as defined in the Company's

1 approved ARM tariff.<sup>1</sup> In addition, in accordance with Section V of the approved  
2 ARM Tariff, I will also discuss the disclosed proposed deviations from the Approved  
3 Methodologies, which the Company has included on Schedule 7 in its filing.

4 **Q. DO YOU HAVE ANY EXHIBITS ATTACHED TO YOUR TESTIMONY?**

5 A. No. While I have no exhibits attached directly to my testimony, I am sponsoring the  
6 revenue requirement schedules, relied-upon files, and other contents of the  
7 Company's ARM Filing required by Section IV of the ARM tariff.

8 **Q. WERE THE CONTENTS OF THE ARM FILING PREPARED BY YOU OR**  
9 **UNDER YOUR DIRECTION AND SUPERVISION?**

10 A. Yes.

11 **Q. WHAT CALCULATIONS HAVE YOU PERFORMED FOR YOUR**  
12 **TESTIMONY IN THIS PROCEEDING?**

13 A. I have calculated the Company's projected cost of service, or revenue requirement,  
14 for the Test Year ended May 31, 2019, that is needed for the Company to earn its  
15 authorized return on equity. The results and supporting calculations are shown in the  
16 Revenue Requirement Model, Schedules 1-11. Except as discussed below in  
17 connection with the disclosed proposed deviations, all of the calculations were made  
18 in accordance with the Approved Methodologies.

19 **Q. PLEASE SUMMARIZE YOUR RESULTS.**

20 A. The Company's total cost of service for the Test Year ended May 31, 2019 is  
21 \$127,853,476. The Company's projected revenue at present rates is \$132,279,331,  
22 resulting in a revenue sufficiency for the Forward Looking Test Year ending May 31,  
23 2019 of \$4,425,855. In addition to that sufficiency, I have added the Annual  
24 Reconciliation Revenue Requirement deficiency of \$382,182 that was approved by  
25 the Commission in Docket No. 17-00091. I have also included an expense credit of

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<sup>1</sup> See also *In re: Petition of Atmos Energy Corporation for a General Rate Increase Under T.C.A. 65-5-103(a) and Adoption of an Annual Rate Review Mechanism Under T.C.A. 65-5-103(d)(6)*, Docket No. 14-00146, *Order Approving Settlement*, p. 10 (November 4, 2015).

1       \$988,324 as a result of the amortization of excess deferred income tax, which is  
2       further discussed in the testimony of Company witness Jennifer K. Story. The  
3       resulting total revenue sufficiency is \$5,031,996. I have included in the ARM filing  
4       proposed tariffs with proposed rates that produce that amount of revenue and that  
5       were calculated using the Approved Methodologies.

6                                   **III. HISTORY AND PURPOSE OF THE**  
7                                   **ANNUAL REVIEW MECHANISM**

8   **Q.   PLEASE EXPLAIN THE PURPOSE OF THE COMPANY'S ANNUAL**  
9       **REVIEW MECHANISM.**

10  A.   The ARM is designed to provide the Company a reasonable and timely means of  
11       recovering its cost of service for each projected Forward Looking Test Year. The  
12       ARM is a comprehensive mechanism that includes all components of cost of service.  
13       This includes, among other things, capital investment and depreciation expense,  
14       O&M expenses, and revenues as detailed in the Revenue Requirement Model. The  
15       ARM, created pursuant to Tennessee Code Annotated Section 65-5-103(d)(6), is a  
16       reasonable and effective solution that allows the Company timely recovery of its cost  
17       of service while avoiding costly and litigious general rate cases. An Annual  
18       Reconciliation ensures that the Company does not earn in excess of its authorized  
19       return on equity while simultaneously ensuring that the Company is not financially  
20       injured as it invests the capital necessary to continue to provide safe and reliable  
21       service to its Tennessee customers. In approving the ARM in November 2015, the  
22       Commission properly found the mechanism to be in the public interest.<sup>2</sup>

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<sup>2</sup> *Id.* at 9.

1   **Q.   WHEN AND HOW WAS THE ANNUAL REVIEW MECHANISM**  
2       **APPROVED BY THE COMMISSION?**

3   A.   The ARM was initially approved by the Commission in Docket No. 14-00146 by  
4       Order issued on November 4, 2015.<sup>3</sup>

5   **Q.   PLEASE PROVIDE A GENERAL DESCRIPTION OF THE ANNUAL**  
6       **REVIEW MECHANISM AND HOW IT WORKS.**

7   A.   Under the ARM, as set forth in the Company's Tariff Sheets 34.1 through 34.7, the  
8       Company calculates an annual revenue requirement for its Tennessee jurisdiction for  
9       each Forward Looking Test Year and then allocates that revenue requirement across  
10      the Company's customer classes using Approved Methodologies established in the  
11      Company's most recent rate case. Through the annual ARM filing, which is filed no  
12      later than February 1 of each year, the Company updates both the customer and  
13      volumetric charges of its base rates in accordance with the Approved Methodologies  
14      to reflect the forecasted revenue requirement. In addition to the ARM filing each  
15      February 1, the Company also files an Annual Reconciliation on or before September  
16      1 of each year which provides a reconciliation of actual results to the authorized  
17      return on equity for the Test Year immediately completed. The resulting revenue  
18      requirement from the Annual Reconciliation is then incorporated into the Company's  
19      subsequent February 1 ARM filing. This filing incorporates the Annual  
20      Reconciliation approved by the Commission in Docket No. 17-00091.<sup>4</sup> Per  
21      Commission Order, the current forward looking filing was held in abeyance pending  
22      the outcome of Docket No. 17-00091 and is therefore being made approximately 4 ½  
23      months later than the February 1<sup>st</sup> date prescribed by the ARM tariff.

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<sup>3</sup> *Id.*

<sup>4</sup> *In re: Atmos Energy Corporation Annual Reconciliation of Annual Review Mechanism*, Docket No. 17-00091 (May 14, 2018) (The True-Up Amount was approved by the Commission at its conference hearing on May 14, 2018. A written Final Order is pending).

1                   **IV. REVENUE REQUIREMENT MODEL SCHEDULES**

2   **Q.   PLEASE LIST THE SCHEDULES THAT COMPRISE THE COMPANY'S**  
3       **REVENUE REQUIREMENT MODEL.**

4   A.   The Revenue Requirement Model is comprised of:

5               Schedule 1: Cost of Service

6               Schedule 2: Summary of Revenues at Present Rates

7               Schedule 3: Cost of Gas

8               Schedule 4: Operation and Maintenance Expenses

9               Schedule 5: Taxes Other than Income

10              Schedule 6: Depreciation and Amortization Expenses

11              Schedule 7: Rate Base and Return

12              Schedule 8: Computation of State Excise and Income Taxes

13              Schedule 9: Overall Cost of Capital

14              Schedule 10: Rate of Return

15              Schedule 11: Proof of Revenues and Calculation of Rates

16              These Schedules are included in each February 1 ARM filing per the approved ARM  
17              tariff. Pursuant to the ARM tariff, I have also included the schedules traditionally  
18              used by Commission Staff to illustrate that the Company's Revenue Requirement  
19              Model and Staff's model reconcile.

20   **Q.   PLEASE EXPLAIN SCHEDULE 1.**

21   A.   Schedule 1 summarizes the elements of the cost of service, including gas cost  
22              expense, O&M expense, depreciation expense, taxes other than income taxes, return  
23              on rate base, income tax, allowance for funds used during construction ("AFUDC")  
24              and interest on customer deposits. Schedule 1 forecasts cost of service for the  
25              Forward Looking Test Year from the Historic Base Period, as defined in the ARM  
26              Tariff, in order to calculate the revenue requirement that is the amount of additional

1 revenue or reduction in rates required for the Company to earn its authorized rate of  
2 return. Schedule 1 sources data from each of the other schedules.

3 **Q. PLEASE EXPLAIN SCHEDULES 2 AND 3.**

4 A. Schedule 2 shows per book revenues for the Historic Base Period ended September  
5 30, 2017 and the projected revenues for the Forward Looking Test Year. Schedule 3  
6 shows the Historic Base Period per books gas cost and the projected Forward  
7 Looking Test Year cost of gas. The Forward Looking Test Year cost of gas is  
8 adjusted to remove rent for inter-company leased storage property that is booked to  
9 gas cost per the Approved Methodologies.

10 **Q. PLEASE EXPLAIN SCHEDULE 4.**

11 A. Schedule 4 shows the Historic Base Period per books O&M expense, and the  
12 forecasted Forward Looking Test Year O&M expense with adjustments made in  
13 accordance with the Approved Methodologies, including an adjustment to the Test  
14 Year O&M expense to remove rent that was budgeted on inter-company leased  
15 property prior to the sale of Atmos Energy Marketing ("AEM") and include  
16 operating expenses for the Barnsley storage asset.

17 **Q. PLEASE PROVIDE MORE DETAIL ON THE VARIANCE BETWEEN THE**  
18 **ACTUAL HISTORIC BASE PERIOD OPERATION AND MAINTENANCE**  
19 **EXPENSE COMPARED TO THE FORECASTED FORWARD LOOKING**  
20 **TEST YEAR AMOUNT.**

21 A. The Company forecasted Forward Looking Test Year O&M expenses of \$21,369,012  
22 compared to Base Period O&M expenses of \$22,359,003, resulting in a decrease of  
23 \$989,991. The forecasted O&M includes the removal of specified subaccounts, most  
24 notably related to the pension accrual and incentive compensation, per the Approved  
25 Methodologies. The disallowed items are itemized on WP 4-1.

1   **Q.   PLEASE EXPLAIN THE ADJUSTMENT IN O&M EXPENDITURES FOR**  
2       **PENSION CONTRIBUTION.**

3   A.   As required by the Approved Methodologies, the Company removed the budgeted  
4       accrual for FAS 87 expenses. In years when the Company makes actual cash  
5       contributions to its pension fund, the allocable amount will be included in the Annual  
6       Reconciliation Revenue Requirement as it was in Docket No. 17-00091 and utilizing  
7       the allocation methodology per the Approved Methodologies.

8   **Q.   DID YOU MAKE ANY ADJUSTMENTS FOR THE AMORTIZATION OF**  
9       **RATE CASE EXPENSE?**

10  A.   No. Actually-incurred rate case expenses for Docket No. 14-00146 were \$260,222.  
11       The Company amortized that expense at \$14,583.33 per month and the amortization  
12       was completed in November 2016. Therefore, no amounts are included in the  
13       Forward Looking Test Year of this filing.

14  **Q.   PLEASE EXPLAIN SCHEDULE 5.**

15  A.   Schedule 5 shows Historic Base Period per books taxes other than income taxes and  
16       forecasted Forward Looking Test Year taxes other than income taxes. Forecasted  
17       Forward Looking Test Year taxes other than income taxes have been adjusted to  
18       include taxes for intercompany leased property per the Approved Methodologies.

19  **Q.   PLEASE EXPLAIN THE VARIANCE BETWEEN HISTORIC BASE PERIOD**  
20       **PER BOOK TAXES OTHER THAN INCOME TAXES COMPARED TO THE**  
21       **AMOUNT FORECASTED BY THE COMPANY.**

22  A.   The Company forecasted \$7,645,406 in Taxes Other Than Income Taxes during the  
23       Forward Looking Test Year, whereas the Historic Base Period amount was  
24       \$7,616,970 for an overall increase of \$28,436. The primary drivers of the difference  
25       are increases in Ad Valorem taxes at the Tennessee and Shared Services levels.



1   **Q.     PLEASE EXPLAIN SCHEDULE 6.**

2   A.     Schedule 6 shows the Historic Base Period per books depreciation and amortization  
3           expense, and the forecasted Forward Looking Test Year depreciation and  
4           amortization expense. I removed the \$649,245 adjustment for the amortization of the  
5           pension regulatory asset that was approved in Docket No. 14-00146 as that asset  
6           became fully amortized on May 31, 2017. In addition, I have adjusted the forecasted  
7           Forward Looking Test Year depreciation expense to include expense for  
8           intercompany leased storage property per the Approved Methodologies, as well as to  
9           adjust for the removal of depreciation expense on capitalized incentive  
10          compensation.

11   **Q.     PLEASE EXPLAIN SCHEDULE 7.**

12   A.     Schedule 7 shows the calculation of the Historic Base Period per books rate base and  
13           forecasted Forward Looking Test Year rate base. The rate base includes the actual  
14           thirteen-month averages of the original cost of plant, accumulated depreciation,  
15           storage gas investment, materials and supplies, accumulated deferred income tax  
16           ("ADIT"), customer advances, customer deposits and accumulated interest on  
17           customer deposits per the Approved Methodologies.

18   **Q.     PLEASE DISCUSS VARIANCES IN RATE BASE ITEMS BETWEEN THE**  
19           **HISTORIC BASE PERIOD AND THE FORECASTED FORWARD**  
20           **LOOKING TEST YEAR.**

21   A.     Schedule 7 compares Historic Base Period rate base items to forecasted Forward  
22           Looking Test Year items on a line by line basis in accordance with the Approved  
23           Methodologies. The primary contributor to the growth in rate base is capital  
24           investment (plant additions) as the Company continues to invest in the safety and  
25           reliability of its system.

1   **Q.    WHAT ADJUSTMENTS ARE MADE TO THE HISTORICAL BASE PERIOD**  
2       **AND FORWARD LOOKING TEST YEAR RATE BASE?**

3    A.    I have included deviations to the Approved Methodologies in accordance with the  
4       ARM Tariff which are included on Schedule 7. These adjustments include the  
5       recognition of a regulatory liability for excess deferred income taxes and a deferred  
6       tax asset for the tax gross-up of same as a result of the Tax Cuts and Jobs Act  
7       ("TCJA"). Additionally, and necessarily to properly reflect the impact of the TCJA  
8       in revenue requirement, ADIT balances in addition to those related to fixed assets  
9       must be projected beyond the end of the Historic Base Period. In addition to those  
10       deviations and consistent with prior ARM filings, Schedule 7 also includes  
11       adjustments for cash working capital and the net book value of inter-company leased  
12       storage property. The revenue and expense lag factors from the Company's lead/lag  
13       study prepared in Docket No. 14-00146 were applied to actual results in order to  
14       calculate the Company's actual cash working capital requirement consistent with the  
15       Approved Methodologies.

16   **Q.    WERE THE DEVIATIONS MENTIONED ABOVE PROPERLY DISCLOSED**  
17       **ON THE CERTIFICATION INCLUDED WITH THE COMPANY'S FILING**  
18       **AS REQUIRED BY THE ARM TARIFF?**

19   A.    Yes. The deviations are briefly described in Attachment A to the Certification and  
20       more completely discussed and supported in the testimony of Company witness Ms.  
21       Jennifer Story.

22   **Q.    PLEASE EXPLAIN SCHEDULE 8.**

23   A.    Schedule 8 shows the calculation of state excise taxes and income taxes on the  
24       required return on rate base for both the Historic Base Period and the Forward  
25       Looking Test Year, adjusted with costs and revenues as presented in Schedules 2-7.

1   **Q.     PLEASE EXPLAIN SCHEDULE 9.**

2   A.     Schedule 9 shows the calculation of the overall cost of capital based on the capital  
3           structure, debt cost rates, and the required rate of return on equity required for the  
4           Forward Looking Test Year. It is comprised of the actual equity balance and actual  
5           long-term debt balance at the end of September 30, 2017, and a twelve-month  
6           average short-term debt balance for the twelve months ending September 30, 2017.  
7           The authorized return on equity is 9.80% and the actual cost of debt is calculated on  
8           WP 9-2 and WP 9-3 of the filing, per the Approved Methodologies.

9   **Q.     PLEASE EXPLAIN SCHEDULE 10.**

10  A.     Schedule 10 shows the calculation of a rate of return on rate base and a rate of return  
11           on the equity financed portion of rate base for the Historic Base Period and the  
12           Forward Looking Test Year, adjusted with costs and revenues as presented in  
13           Schedules 2 through 9, per the Approved Methodologies.

14  **Q.     PLEASE EXPLAIN SCHEDULE 11.**

15  A.     Schedule 11 presents the forecasted billing determinants and calculation of new tariff  
16           rates by customer class and rate schedule for the Forward Looking Test Year  
17           consistent with the cost of service and net revenue deficiency/sufficiency presented  
18           in Schedule 1. In accordance with the ARM tariff, the approved Annual  
19           Reconciliation Revenue Requirement from Docket No. 17-00091 is added to the  
20           revenue sufficiency that the Company has filed in this ARM filing. The revenue  
21           requirement also includes the amortization of the excess deferred income tax liability  
22           discussed hereinabove, in the testimony of Jennifer Story and referenced on Schedule  
23           1. The net revenue requirement (comprised of the sufficiency for the Forward  
24           Looking Test Year ending May 31, 2019 plus the Annual Reconciliation Revenue  
25           Requirement from Docket No. 17-00091 minus the amortization of the excess  
26           deferred tax liability) is distributed across the billing determinants (customer classes

1 and rate schedules) forecasted in this filing, consistent with the ARM tariff and  
2 Approved Methodologies.

3 **Q. HAVE THE COST OF SERVICE ITEMS FOR WHICH THE COMPANY**  
4 **SEEKS RECOVERY BEEN PRUDENTLY INCURRED?**

5 A. Yes. The budgeting and forecasting methodologies used as the basis for the  
6 forecasted cost of service in this filing are consistent with those documented in my  
7 pre-filed direct testimony in Docket No. 14-00146. These are the same  
8 methodologies, policies and procedures that are the basis for the Approved  
9 Methodologies as defined by the ARM tariff. The cost of service items for which the  
10 Company seeks recovery, particularly but not limited to capital investments and  
11 operating expenses, have been prudently incurred and/or have been prudently  
12 forecasted to be incurred.

13 **V. CONCLUSION**

14 **Q. WHAT ARE YOU ASKING THE COMMISSION TO DO IN THIS**  
15 **PROCEEDING?**

16 A. I respectfully request that the Commission approve the Company's 2018 ARM filing  
17 and the 2018 ARM Revenue Requirement, which have been prepared in accordance  
18 with the Approved Methodologies approved and adopted by the Commission in  
19 Docket No. 14-00146.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION )  
ANNUAL RECONCILIATION )  
OF ANNUAL REVIEW MECHANISM )


Docket No. 18-XXXXX

VERIFICATION


STATE OF TEXAS )

COUNTY OF DALLAS )

I, Gregory K. Waller, being first duly sworn, state that I am the Manager of Rates and Regulatory Affairs 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 Gregory K. Waller in support of Atmos Energy Corporation's filing is true and correct to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
Gregory K. Waller

Sworn and subscribed before me this 8<sup>th</sup> day of June, 2018.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: 9/01/2020

