

**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 JENNIFER K. STORY
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 Jennifer K. Story. My business address is 5430 LBJ Freeway, Suite 700,
- 4 Dallas, TX 75240. I am employed by Atmos Energy Corporation (“Atmos Energy” or
- 5 the “Company”) as Director of Income Tax.
- 6 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**
- 7 A. As Director of Income Tax for Atmos Energy, I am responsible for oversight and
- 8 management of all income tax matters for the Company. This oversight includes
- 9 ensuring that the income tax accounts recorded on the books and records accurately
- 10 reflect the Company’s tax filings and positions. I am also responsible for ensuring
- 11 that deferred taxes are recorded on the financial statements in accordance with
- 12 Generally Accepted Accounting Principles (“GAAP”). I oversee a group of tax
- 13 professionals that undertakes tax planning to minimize taxes, prepares the
- 14 Company’s tax filings, and defends those filings under audit. I am also responsible
- 15 for the establishment of and compliance with the Company’s income tax policies and
- 16 controls.

1 **Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL**
2 **QUALIFICATIONS.**

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

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

11 **Q. HAVE YOU TESTIFIED BEFORE THE TENNESSEE REGULATORY**
12 **AUTHORITY OR ANY OTHER REGULATORY COMMISSION?**

13 A. Yes. I have submitted direct and rebuttal testimony regarding income taxes in the
14 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
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
Tennessee Public Utility Commission	Docket No. 17-00091	Direct and Rebuttal
Virginia State Corporation Commission	Case No. PUR-2018-00014	Direct

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1 **II. PURPOSE AND SUMMARY**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A. I will explain how the Tax Cuts and Job Act of 2017 impacted the Company's taxes
4 and the manner in which this will be reflected in customer rates.

5 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

6 A. No. While I have no exhibits attached directly to my testimony, I am sponsoring the
7 TCJA impacts included in the following schedules: Schedule 1, Schedule 7, Schedule
8 8 and Schedule 10.

9 **III. DISCUSSION OF IMPACT OF THE REDUCTION IN FEDERAL**
10 **CORPORATE TAX RATE ON THE COMPANY'S FINANCIAL OPERATIONS**

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

15 A. As a result of the federal statutory rate reduction the Company realizes two
16 significant changes to its financial position. First, the Company has immediately seen
17 a decrease in the tax liability associated with current earnings and the resulting tax
18 expense included as a component of cost of service. Second, there has been a
19 reduction in the future tax liabilities for which the Company has previously
20 established deferred taxes. The reversal of deferred taxes in future years will be taxed
21 at the 21% federal tax rate instead of the 35% tax rate at which the deferred taxes
22 were accrued. In other words, the amount recorded on the Company's books prior to
23 the tax law change exceeds what the Company expects to pay the government in the
24 future. Therefore, as a result of the TCJA, the Company had on its books at the date
25 of enactment an excess of deferred taxes.

1 **Q. WHAT ADJUSTMENTS TO ITS BOOKS AND RECORDS HAS THE**
2 **COMPANY MADE AS A RESULT OF THE REDUCTION IN FEDERAL**
3 **CORPORATE TAX RATE?**

4 A. The Company has lowered the statutory tax rate used to calculate tax expense on its
5 books and in this filing's cost of service to the new corporate rate enacted in the
6 TCJA. The Company also has revalued the deferred taxes on its books at the new
7 statutory rate. The Company established a regulatory liability equal to the excess
8 deferred taxes associated with items in rate base for each of the eight jurisdictions in
9 which it operates. The Company is reflecting this regulatory liability in customer's
10 rates in a manner that conforms with the Internal Revenue Code. The Company has
11 also recognized a one-time tax benefit for the excess deferred taxes associated with
12 items not included in rate base or unrelated to regulated operations.

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

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

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

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

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

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

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

10 A. The Company maintains its accounting records in accordance with FERC
11 requirements and GAAP. Book depreciation is computed using rates approved in
12 each jurisdiction where the Company operates. In order to use the ARAM, the
13 Company must calculate and track accumulated depreciation for assets by vintage.
14 Since this methodology does not align with FERC requirements applicable to Atmos
15 Energy or the methodology required in Tennessee, the Company has determined that
16 it does not possess the appropriate records necessary to utilize the ARAM. Instead,
17 the RSG method must be used.

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

20 A. Yes. Utility property related excess deferred income taxes associated with
21 depreciation must be amortized using RSG. Property related excess deferred taxes
22 are those excess deferred taxes created by differences in book and tax methods for
23 depreciable assets. In addition, the Company's deferred tax asset for tax net operating
24 losses are also protected by the IRC normalization provisions. Therefore, the excess
25 deferred income taxes resulting from tax net operating losses must also be amortized
26 over the same period as the property related excess deferred income taxes.

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

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

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

18 A. No.

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

21 A. The Company proposes to amortize all excess deferred taxes, both property-related
22 and non-property-related over the amortization period determined using the RSG
23 method.

24 **Q. WHAT ESTIMATED AMOUNTS HAVE BEEN INCLUDED IN THIS**
25 **FILING?**

26 A. As shown on Workpaper 7-9, the estimated excess deferred tax liability is \$27.7
27 million. The regulatory liability the Company established for Tennessee excess

1 deferred income taxes includes some estimated amounts that will be finalized as the
2 Company files its federal tax return for its September 30th fiscal year end. In addition,
3 the Company has estimated that the period for amortizing the regulatory liability for
4 excess deferred income taxes in Tennessee is 28 years.

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

7 A. The Company's fiscal year end is September 30th. The TCJA was signed into law on
8 December 22, 2017, during the Company's first quarter of fiscal year ending
9 September 30, 2018. Cumulative timing differences which generate ADIT are
10 calculated based on the Company's fiscal year end. In the first quarter, annual timing
11 difference amounts are estimated based on actual results for the first quarter and
12 projected activity for the remainder of the fiscal year. Until the Company has
13 completed its year end and the book accounting for items giving rise to cumulative
14 temporary differences are completed, estimates of the current year deferred taxes and
15 resulting amounts to be recorded to the regulatory liability have been used.

16 **Q. WHEN WILL THE COMPANY FINALIZE THE AMOUNT OF THE**
17 **TENNESSEE REGULATORY LIABILITY FOR EXCESS DEFERRED**
18 **INCOME TAXES?**

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

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

26 A. The Company must first finalize the computation of the regulatory liability for excess
27 deferred income taxes prior to finalizing the amortization for this amount. In

1 addition, the Company's tax systems are currently being modified in order to
2 calculate amortization using RSG. Until such modifications are complete and the
3 Company is able to perform a full and detailed computation of amortization, a high-
4 level estimate has been prepared for use in this filing.

5 **Q. ARE THE ESTIMATES FOR THE REGULATORY LIABILITY FOR**
6 **EXCESS DEFERRED INCOME TAXES AND AMORTIZATION PERIOD**
7 **INCLUDED IN THIS FILING THE SAME AS THOSE INCLUDED IN THE**
8 **COMPANY'S RESPONSE TO THE COMMISSION'S ORDER OPENING AN**
9 **INVESTIGATION AND REQUIRING DEFERRED ACCOUNTING**
10 **TREATMENT FOR THE TCJA?**

11 A. No. Both the estimate of the regulatory liability and the amortization period differ
12 slightly from amounts reported by the Company in its response to the Commission's
13 investigation into the impacts of the TCJA in Docket No. 18-00034 ("TCJA
14 Investigation").

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

17 A. The Approved Methodologies for the ARM Tariff require the Company to utilize a
18 Historic Base Period ended September 30. Only fixed-asset-related ADIT items are
19 permitted to be projected beyond this base period. The Company determined the
20 appropriate regulatory liability amount to include in this filing by revaluing
21 September 30, 2017 ADIT balances using the new statutory federal rate. Fixed-asset-
22 related ADIT projections for October through December, computed at the new
23 statutory federal rate, were added to the revalued September balance amount. This
24 calculation resulted in a regulatory liability of \$27.7 million. The Company's
25 response to the Commission's TCJA Investigation, Docket No. 18-00034, included
26 the \$29.3 million of Tennessee excess deferred income taxes recorded on the
27 Company's financial statements at December 31, 2017. As I have described in my

1 testimony, the final amount for the regulatory liability will not be known until the
2 Company files its tax return in July 2019.

3 **Q. WHY IS THE ESTIMATE OF THE AMORTIZATION PERIOD**
4 **DIFFERENT?**

5 A. As I have described in my testimony, modifications to the Company's tax systems
6 are currently being made in order to calculate the amortization period for the excess
7 deferred income taxes. At the time of the Company's response to the Commission's
8 TCJA Investigation in Docket No. 18-00034, the Company only had data available to
9 compute a very high-level system-wide amortization period that included operations
10 in all of its regulated jurisdictions. This estimate was 24 years. While modifications
11 are not yet complete and the amortization period remains an estimate, the Company
12 has additional data available to refine that estimate and currently estimates 28 years
13 for amortization of excess deferred income taxes in Tennessee. The Company expects
14 the system modifications to be complete and the amortization period to be finalized
15 prior to the finalization of the regulatory liability in 2019. As these amounts are
16 finalized, true-ups to estimates of the regulatory liability and amortization period will
17 be reflected in customer rates through future ARM and Reconciliation filings.

18 **IV. DEVIATIONS TO APPROVED METHODOLOGIES**

19 **Q. WERE TCJA-RELATED DEVIATIONS TO THE APPROVED**
20 **METHODOLOGIES FOR THE ARM TARIFF NECESSARY FOR THIS**
21 **FILING?**

22 A. Yes. As Company witness Waller describes in his testimony, the TCJA-related
23 adjustments appear on Schedule 7. The deviations to the Approved Methodologies
24 resulted from incorporating the impacts of the TCJA in the Company's revenue
25 requirement. These included (1) the recognition of a regulatory liability for excess
26 deferred income taxes and the recognition of a deferred tax asset for the tax gross-up

1 of the regulatory liability; and (2) the projection of ADIT balances in addition to
2 those related to fixed assets beyond the end of the Historic Base Period.

3 **Q. PLEASE DESCRIBE THE REGULATORY LIABILITY FOR EXCESS**
4 **DEFERRED INCOME TAXES INCLUDED IN THIS FILING.**

5 A. As I have described in my testimony, the Company revalued the deferred taxes on its
6 books at the new statutory rate in December 2017. The Company established a
7 regulatory liability equal to the excess deferred taxes associated with items in rate
8 base in Tennessee. As I have described in my testimony, the regulatory liability
9 computed for this filing is \$27.7 million. This amount includes the gross-up for taxes,
10 which I will describe. This regulatory liability is included as an adjustment to rate
11 base and will be amortized to customers. This amortization is shown on Workpaper
12 7-9 and Schedule 1.

13 **Q. PLEASE DESCRIBE THE DEFERRED TAX ASSET FOR THE TAX GROSS-**
14 **UP OF THE REGULATORY LIABILITY INCLUDED IN THIS FILING.**

15 A. The amortization of the regulatory liability for excess deferred income taxes will
16 reduce the Company's revenue and therefore result in decreased tax expense. To
17 properly account for this, GAAP requires the Company to gross up the regulatory
18 liability for taxes and establish a deferred tax asset for the gross-up amount. The
19 Company has done so and has included both the grossed up regulatory liability for
20 excess deferred income taxes and the deferred tax asset of \$6.3 million in this filing.

21 **Q. PLEASE DESCRIBE WHY ADIT BALANCES MUST BE PROJECTED**
22 **BEYOND THE END OF THE HISTORIC BASE PERIOD TO PROPERLY**
23 **REFLECT THE IMPACT OF THE TCJA IN THE REVENUE**
24 **REQUIREMENT.**

25 A. The TCJA was enacted December 22, 2017, three months after the Historic Base
26 Period ended September 30, 2017. In order to reflect the reduction in the statutory

1 income tax rate in the revenue requirement, gross ADIT balances at September 30,
2 2017 were revalued using the new statutory rate in December 2017.

3 **Q. IN ADDITION TO REVALUING ADIT AMOUNTS AT THE NEW RATE,**
4 **WAS ADIT ACTIVITY PROJECTED BEYOND THE END OF THE**
5 **HISTORIC BASE PERIOD?**

6 A. Yes. Pursuant to the Approved Methodologies in accordance with the ARM Tariff,
7 ADIT balances related to fixed assets were projected beyond the end of the Historic
8 Base Period. In addition, balances for the regulatory liability for excess deferred
9 income taxes and the related deferred tax asset were projected to reflect the
10 amortization of these amounts to customers.

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

12 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

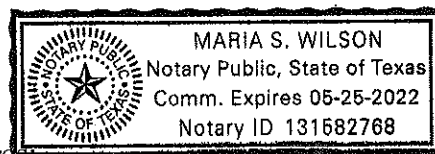
STATE OF TEXAS)

COUNTY OF DALLAS)

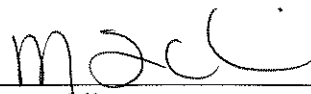
I, Jennifer K. Story, being first duly sworn, state that I am Director Income Tax for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Direct Testimony of Jennifer K. Story in support of Atmos Energy Corporation's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


Jennifer K. Story

Sworn and subscribed before me this 13 day of June, 2018.



My Commission Expires: _____


Notary Public