IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:	)	
	)	
ATMOS ENERGY CORPORATION	)	**DOCKET NO. 18-00097**
ANNUAL RECONCILIATION OF	)	
ANNUAL REVIEW MECHANISM	)	

DIRECT TESTIMONY

OF

DAVID DITTEMORE

January 9, 2019

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:	)	
	)	
ATMOS ENERGY CORPORATION	)	**DOCKET NO. 18-00097**
ANNUAL RECONCILIATION OF	)	
ANNUAL REVIEW MECHANISM	)	

AFFIDAVIT

I, David N. Dittemore, Financial Analyst, on behalf of the Consumer Advocate Unit in the Financial Division of the Office of Attorney General, hereby certifies that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Unit.

David N. Dittemore
DAVID N. DITTEMORE

Sworn to and subscribed before me this 9th day of January, 2019.

Rachel Davis
NOTARY PUBLIC

My commission expires: 12/2020

RACHEL KEMP DAVIS
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY
My Commission Expires DEC. 7, 2020

CONTENTS

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

A1. My name is David N. Dittemore. My business address is Office of the Tennessee Attorney General, War Memorial Building, 301 6th Ave. North, Nashville, TN 37243. I am a Financial Analyst employed by the Consumer Advocate Unit of the Tennessee Attorney General's Office (Consumer Advocate).

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

A2. I received a Bachelor of Science Degree in Business Administration from the University of Central Missouri in 1982. I am a Certified Public Accountant licensed in the state of Oklahoma (#7562). I was previously employed by the Kansas Corporation Commission (KCC) in various capacities, including Managing Auditor, Chief Auditor and Director of the Utilities Division. For approximately four years, I was self-employed as a Utility Regulatory Consultant representing primarily the KCC Staff in regulatory issues. I also participated in proceedings in Georgia and Vermont, evaluating issues involving electricity and telecommunications regulatory matters. Additionally, I performed a consulting engagement for Kansas Gas Service (KGS), my subsequent employer during this time frame. For eleven years I served as Manager and subsequently Director of Regulatory Affairs for KGS, the largest natural gas utility in Kansas serving approximately 625,000 customers. KGS is a division of One Gas, a natural gas utility serving approximately two million customers in Kansas, Oklahoma and Texas. I joined the Tennessee Attorney General's Office in September 2017 as a Financial Analyst. Overall, I have thirty years' experience in the field of public utility regulation. I have presented testimony as an expert witness on many occasions. Attached as Exhibit 1 is a detailed vita of my background.

Q3. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION (TPUC)?

A3. Yes. I have submitted testimony in TPUC Docket Nos. 17-00014, 17-00108, 17-00138, 17-1124, 17-00143, 18-00017, 18-00022, 18-00034, 18-00038 and 18-00067.

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A4. The purpose of my testimony is twofold; a) to support adjustments to the Company's thirteen-month average balance of Accumulated Deferred Income Tax (ADIT) and Regulatory Liability included within this reconciliation filing, and b) to support the need for the identification and ongoing monitoring of appropriate safety and operational performance metrics as part of the Atmos Annual Rate Mechanism (ARM) review.

I. SUMMARY OF PROPOSED ADJUSTMENTS

Q5. PLEASE SUMMARIZE YOUR TESTIMONY.

A5. I am sponsoring two Consumer Advocate adjustments, which increase the balance of ADIT (thus reducing Rate Base) $8,679,440, resulting in a pro-forma Consumer Advocate adjusted ADIT balance of $50,374,485 as shown on Consumer Advocate Exhibit (Attachment WHN-2), Schedule 2. The first adjustment reduces rate base $102,102 and is necessary to properly synchronize the ADIT balance to eliminate those components that are excluded from the determination of Operating and Maintenance (O&M) costs. The second adjustment ($8,577,338) is necessary to use the Tennessee specific state tax rate in the ADIT calculation to match up with the same rate used in the calculation of Income Tax Expense. I also identify key safety and operating performance metrics and explain why such monitoring is a key regulatory function that should be incorporated within Atmos' ARM review.

Q6. PLEASE BEGIN WITH AN EXPLANTION OF ADIT AND HOW IT IS REFLECTED IN THE REVENUE REQUIREMENT CALCULATION.

A6. The ADIT balance represents the account that reconciles Income Tax Expense recorded pursuant to Generally Accepted Accounting Principles (GAAP) and Income Taxes paid to state and federal taxing authorities. The ADIT account is a credit balance, which indicates that on a cumulative basis Income Tax Expens has exceeded Income Taxes paid to taxing authorities. This liability represents positive cash flow to the Company provided by ratepayers and is available to finance utility assets. Therefore, it is typically a reduction to Rate Base, reflecting the portion of Rate Base financed by ratepayers.[1] Thus, the net Rate Base reflects that level of investment provided by investors.

II. SYNCHRONIZATION OF ADIT COMPONENTS

Q7. IDENTIFY THE FIRST ADJUSTMENT TO ADIT THAT YOU ARE SPONSORING.

A7. I am sponsoring Rate Base Adjustment No. 1, reducing rate base $102,102 to properly synchronize the balance of ADIT with other components of the revenue requirement.

Q8. EXPLAIN HOW COMPONENTS OF THE ADIT BALANCE ARE NOT PROPERLY MATCHED WITH OPERATING AND MAINTENANCE ITEMS WITHIN THE REVENUE REQUIREMENT.

A8. The balance of ADIT is comprised of items that are reflected one way for financial reporting purposes (for example book depreciation on plant in service), and another way for Income Tax expense purposes (accelerated tax depreciation on plant in service). These differences are referred to as book/tax timing differences and are then applied to a composite state/federal tax rate to arrive at the appropriate ADIT balance.

However, for ratemaking purposes there are usually adjustments made to certain items recorded on the financial books of the utility. An example of one such ratemaking

[1] The other option available to regulators is to reflect the liability balance as zero cost capital within the capital structure. However, this generally involves some measurement issues as the ADIT balance is typically identified on a jurisdictional basis, while the Capital Structure is stated on a total corporate basis (not on a state jurisdictional basis).

adjustment is the use of "cash" pension costs for ratemaking purposes rather than the use of accrued pension costs recorded on the financial books of the utility. Another example is the exclusion of certain incentive compensation costs from the ratemaking calculation. In calculating an appropriate revenue requirement, it is necessary to consider whether the excluded item of O&M cost has implications on the ADIT balance. The adjustment identified above is necessary to properly match the adjustments made to O&M with their impacts on the ADIT balance. Without this adjustment the ratemaking calculation is not properly synchronized.

Q9. WHAT COMPONENTS OF THE ADIT CALCULATION ARE REMOVED IN ORDER TO PROPERLY MATCH ITS BALANCE WITH THE O&M ADJUSTMENTS MADE PURSUANT TO THE STIPULATION AND AGREEMENT IN DOCKET NO. 14-00146?

A9. The ADIT balances comprised of Pension Expense and various aspects of incentive compensation that should be removed. The table below sets out the amount of the adjustment.

Line	Description	Attrition Year 13 Month Average	
1	Accumulated Deferred Income Tax	(41,695,007)	A/
	Adjustments		
2	To Remove Pension Expense	(679,249)	B/
3	To Remove Restricted Stock Program	93,067	B/
4	To Remove Restricted Stock- MIP /C	480,664	B/
5	To Remove Director's Stock Award	236,225	B/
6	To Remove MIP/VPP Accrual /C	(28,606)	B/
7	**Total Adjustments**	102,102	
8	**Adjusted Total**	**(41,797,109)**	

A/ Attrition Period Trial Balance 5.31.18.xlsx
B/ ADIT 06-30-18.xlsx
C/ Management Incentive Plan/Variable Pay Plan

Q10. GIVEN THE RELATIVELY SMALL SIZE OF THE RATE BASE ADJUSTMENT, WHY ARE YOU PROPOSING THE COMMISSION ADOPT IT?

A10. The adjustment to Unprotected ADIT is necessary to eliminate the ADIT impacts for those items that are excluded from the Atmos revenue requirement. Therefore, the adjustment is necessary to properly synchronize the Atmos Rate Base with O&M costs used for ratemaking. Synchronizing components of the revenue requirement is a fundamental objective in the calculation of an appropriate revenue requirement.

Q11. HAS THIS ADJUSTMENT BEEN MADE IN DOCKET NO. 14-00146, OR IN SUBSEQUENT ARM RECONCILIATION DOCKETS?

A11. No. However, basic ratemaking theory requires that items of expense and rate base be measured consistently. In addition, this adjustment is necessary to reflect uniformity with the identical issue supported by the Consumer Advocate in Docket No. 18-00034.[2]

III. SYNCHRONIZING TENNESSEE ADIT CALCULATION WITH TENNESSEE SPECIFIC EXCISE TAX RATE

Q12. CONTINUE BY DISCUSSING YOUR SECOND ADJUSTMENT TO ATMOS' ADIT BALANCE.

A12. The second adjustment increases the balance of ADIT (which reduces Rate Base) in the amount of $8,577,338. This adjustment is necessary to compute the ADIT balance using the same tax rates incorporated within the calculation of Atmos Income Tax Expense. The adjustment results from Atmos' inconsistent use of the Tennessee State Excise Tax

[2] David Dittemore Direct Testimony, pages 18 and 19, Docket No. 18-00034.

rate of 6.5% within the Income Tax Expense Calculation[3] and a composite state tax rate within its Division 093 (TN) ADIT balances.[4]

Q13. EXPLAIN WHAT THE COMPOSITE STATE TAX RATE IS AND HOW IT IS USED.

A13. The composite state tax rate of 2.3% is a weighted average state tax rate across the entire Atmos Energy System.[5] The composite rate is applied to the various Atmos division book/tax timing differences in arriving at its ADIT balances, a significant offset to Rate Base. The inconsistent use of a state tax rate of 6.5% in the computation of Income Tax Expense with the use of the 2.3% state tax rate within the Division 093 Tennessee specific ADIT poses an obvious inconsistency in the development of the Atmos revenue requirement.

Q14. WHAT IS THE RELATIONSHIP BETWEEN THE INCOME TAX EXPENSE CALCULATION AND THE BALANCE OF ADIT?

A14. The two accounts are related. As I discussed earlier in my testimony, the ADIT balance represents the account that reconciles Income Tax Expense recorded pursuant to GAAP and Income Taxes paid to state and federal taxing authorities. The ADIT account is a credit balance, which indicates that on a cumulative basis Income Tax Expense has exceeded Income Taxes paid to taxing authorities.

Q15. WHAT IS THE PRACTICAL EFFECT OF ATMOS USING ONE RATE TO COMPUTE INCOME TAX EXPENSE AND ANOTHER RATE TO DETERMINE THE APPROPRIATE AMOUNT OF ADIT THAT IS A RATE BASE OFFSET?

---

[3] See GKW-1, WP 8-2, line no. 11.
[4] See Exhibit DND-1, an e-mail confirming the use of different state tax rates.
[5] See response to CA Request 1-3, Attachment 6, tab 093 within Docket No. 18-00067.

A15. The practical result of this inconsistent treatment is either an Income Tax Expense that is excessive, or an understated ADIT that results in an overstated rate base. From either perspective the revenue requirement is overstated due to this inconsistency. There are arguments for using a Tennessee specific state tax rate within the revenue requirement or a composite state tax rate, but I do not believe there is any rational argument for using one state rate within the expense calculation and another rate within the Tennessee specific ADIT calculation. In summary, Atmos-Tennessee ratepayers are paying a state income tax component of 6.5%, but only receiving credit for a composite rate of 2.3%.

Q16. WHAT ARE THE OPTIONS IN ADDRESSING THIS INCONSISTENCY?

A16. There are two alternatives to ensure consistent treatment between these two related revenue requirement components. The first is to simply modify the calculation of Income Tax Expense to use the composite state tax rate of 2.3%. The second option, which I am supporting as the primary recommendation, is to restate the Division 093 ADIT balance to incorporate the Tennessee specific tax rate of 6.5%. The calculations supporting this adjustment are set forth in Exhibits DND-2, DND-2-A and DND-2-B attached to my testimony.

There is support for either approach. It is my understanding that TPUC has a history of relying upon the Tennessee state specific excise tax rate rather than a composite state tax rate for multi-jurisdictional utilities. Therefore, I am recommending the continued use of the Tennessee specific excise tax rate in the computation of both Income Tax Expense and the ADIT balance.

Q18. HAS THIS ADJUSTMENT PREVIOUSLY BEEN IDENTIFIED IN DOCKET NO. 14-000146, OR ANY OF THE SUBSEQUENT RECONCILIATION DOCKETS?

A18. No.

Q.19 DO YOU BELIEVE THIS NEW ADJUSTMENT REPRESENTS A DEVIATION FROM AN APPROVED METHODOLOGY?

A19. I do not believe it represents a deviation in Approved Methodologies as that term is used within the Stipulation and Agreement in Docket No. 14-00146. Regardless of whether differing state tax rates were used within the expense and ADIT calculations, the two revenue requirement components should include the same state tax rate. Adoption of this issue should not hinge on whether the disparity has been accepted in prior cases, instead the Commission should adopt this adjustment due to the need to maintain consistency between the calculations of Income Tax Expense and ADIT.

MONITORING OPERATING PERFORMANCE

Q20. WHAT IS THE RELEVANCE OF AN OVERVIEW OF ATMOS PERFORMANCE WITHIN AN ARM FILING?

A20. I believe the monitoring of operating performance is a key function of the regulation of monopoly utilities. As it relates to Atmos, the review of operating performance should be an important factor in the ongoing assessment of whether the ARM continues to be in the public interest. Customers deserve to receive quality service provided at just and reasonable rates, balanced of course with the need for shareholders to have an opportunity to earn a reasonable return on prudent investment. In rate reviews, whether they be an ARM filing, or a rider filing, the regulatory focus tends to be on whether the proposed rates are just and reasonable. However, customers also care about the provision of safe and efficient service. This aspect of regulatory oversight should be given the same priority as the evaluation of the reasonableness of rates.

Q21. ARE YOU OFFERING THIS TESTIMONY OUT OF SOME SPECIFIC CONCERN THAT ATMOS IS NOT PROVIDING SAFE AND EFFICIENT SERVICE?

A21. No, not at all. My recommendations in this area are made out of a concern for appropriate public policy. I am not intending to single out Atmos in this regard as I believe the operating performance of all Tennessee jurisdictional utilities should be monitored on an annual basis and the Consumer Advocate intends to collect this information from other jurisdictional utilities as related dockets are filed. While I have comments on a couple of the metrics, I have no significant concerns with the results provided by Atmos.

Q22. IS YOUR VIEW OF THE IMPORTANCE OF MEASURING OPERATING PERFORMANCE SHAPED BY YOUR WORK IN THE UTILITY INDUSTRY AND PREVIOUS REGULATORY EXPERIENCE?

A22. Yes. In general, I believe that utilities desire to provide safe and efficient service. I have no reason to doubt any assertions made by Atmos that the safe operation of their system, both as it relates to customers or employees, is their top priority. However, utility managers also must deal with internal goals and objectives, that, on occasion, may be in conflict. I believe that by requiring the reporting of a set of basic performance metrics, regulators are properly identifying their priorities. Further, it is my experience that utilities care a great deal about information that will be viewed by regulators and simply providing this information on an annual basis will enhance the focus on these performance metrics.

Q23. DO YOU BELIEVE THE PROSPECTIVE REQUIREMENT TO PROVIDE THIS INFORMAITON POSES A BURDEN ON NATURAL GAS UTILITIES?

A23. No. I believe the information provided in response to Consumer Advocate Request No. 1-21 is maintained by Atmos and was readily available at the time the request was issued. Based upon my experience, I strongly suspect this information is maintained by the other natural gas utilities in the course of managing their business. It is possible there may be some variations in the definitions of such metrics, but those refinements can either be worked out later, or accommodated among utilities.

Q24. DO YOU BELIEVE THAT THE REPORTING OR MONITORING OF METRICS SHOULD BE SUBJECT TO POTENTIAL FINES FOR NOT MEETING SPECIFIED STANDARDS?

A24. I am not recommending potential penalties currently. I do not believe taking that approach is warranted at this time based upon the results provided by Atmos. I could envision a set of circumstances where the imposition of fines may be appropriate; however, a significant amount of additional research and consideration would be required before making such a determination.

Q25. ARE YOU PREPARED TO SET OUT WHAT YOU BELIEVE ARE APPROPRIATE MEASUREMENT BENCHMARKS FOR EACH METRIC?

A25. No, not currently. However, I do believe it is important to identify any historic directional trends in the provided information. For example, if material increases in the installation costs of service lines are noted, this variance should be examined closely.

Q26. DOES ATMOS AGREE THAT THE REQUESTED METRICS ARE REASONABLE AND RELEVANT METRICS THAT MAY BE USED TO GAUGE SAFETY, ADEQUACY, AND EFFICIENCY OF SERVICE?

A26. Yes, within the response to Consumer Advocate Request No. 1-21, Atmos acknowledges that the requested metrics are reasonable and may be used to gauge the adequacy and efficiency of service. Of course, there are any number of other additional metrics that could be identified; however, I believe it is important to keep the number of identified metrics within a reasonable number. If too many metrics were reviewed it could result in a loss of focus on the most important metrics.

Q27. IS IT APPROPRIATE TO COMPARE OPERATING METRICS AMONG UTILITIES?

A27. Hypothetically, yes. However, there may be different measurement definitions that each utility relies upon in calculating these metrics. Separately, in the case of the cost metrics, one system may have more problematic operating conditions such as rocky soil that result in more costly service and main line installations. While it would be helpful to compare utility performance, until more detailed definitions and operating conditions are accounted for such comparisons must be done with caution.

Q28. COULD YOU CATEGORIZE THE PERFORMANCE METRICS?

A28. Yes. The requested metrics can be grouped into the following categories:

I. Safety
   a. Emergency Response Time
   b. Quantity of Problematic Pipe
   c. Number of Leaks by PHMSA type (Grades 1 – 3)
   d. Average Age of Leaks

II. Customer Service
   a. Answered Call Rate
   b. Number of Monthly Estimated bills
   c. Number of Monthly Disconnects for Non-payment

III. Cost Metrics
   a. Average Cost of Installed Service Lines
   b. Average Cost of Installed Main per Mile.

Q29. PLEASE DEFINE EACH SAFETY METRIC AND PROVIDE THE RESULTS IDENFITIED BY ATMOS FOR THE PERIOD 2015 – 2017.

A29. Emergency Response Time is the period of time that elapses between when a customer reports an odor call, or possible gas leak, until the time an Atmos employee arrives at the customer premise. This is perhaps the most important of the identified metrics as on rare occasions it can directly impact customer safety. The Atmos performance relating to Emergency Response Time is shown below.

Emergency Response Time within 60 minutes
FY 2015- 86.25%
FY 2016 - 90.15%
FY 2017- 90.07%

While I am familiar with the general metric, I am more familiar with this metric stated on an average response time, rather than the percentage of time the utility responds within 60 minutes. Certainly, a percentage higher than 90% is preferable; however, I am not at this time implying that 90% is deficient. Given the importance of this metric I also recommend Atmos provide the average time required to respond to an odor report.

The next metric is the quantity of problematic pipe as identified by PHMSA.[6] In this regard, this information is publicly available on PHMSA's website; however, I felt it should be reported in the context of regulatory proceedings as well. Though Atmos has very little identifiable problematic pipe, this should be a placeholder in the event other pipe is identified in the future. In summary, Atmos' Tennessee system does not have cast iron main, and minimal bare steel main as shown below. This is certainly a positive attribute of the Atmos system in Tennessee.

Bare Steel Main	
Year	Miles
2015	1.7
2016	2.1
2017	1.7

The next metric identifies the number of leaks by PHMSA type. PHMSA has established three grades of leaks, with Grade 1 being the most critical; therefore, the focus should be on this aspect of the metric.[7] The results are shown below:

[6]. See https://opsweb.phmsa.dot.gov/pipeline_replacement/default.asp

[7] The Atmos response to Consumer Advocate 3-21 acknowledges that Grade 1 is the most severe leak which requires immediate repair or continuous action until the conditions are no longer hazardous.

Year	Number of Leaks (Grade 1)	Number of Leaks (Grade 2)	Number of Leaks (Grade 3)
FY 2015	389	225	52
FY 2016	434	301	86
FY 2017	485	185	51

Q30. IS THE INCREASE IN THE NUMBER OF GRADE 1 LEAKS A CAUSE FOR CONCERN?

A30. Yes. In response to Consumer Advocate Request No. 3-21, Atmos indicates the significant increase in Grade 1 leaks is primarily driven by the number of third-party damages that occurs.[8] Atmos continues by identifying the number of locate requests received, which demonstrate a significant increase over the three-year period. This increase is reflective of the level of construction activity occurring within the Atmos system. Locate requests are generated when construction excavation occurs, and it is necessary to properly identify underground lines to prevent impact with the natural gas line.[9] I agree with Atmos that to some extent there will be correlation between the number of third-party damages and the number of locate ticket requests. Due to the significance of this metric, requesting further details in this area may be justified in future ARM proceedings.

Q31. CONTINUE WITH A DISCUSSION OF THE FINAL SAFETY METRIC

A31. The final safety metric is the overall average age of leaks on the system. This metric measures the turnover rate of "fixed" leaks, or stated another way, the average length of time it takes to repair a given leak. This metric does not differentiate between the

[8] This portion of the response from Atmos is consistent with information I have obtained over the years from other pipeline safety professionals.

[9] As this information becomes more refined, it may be appropriate to determine the categorization into third-party damages split between the following types of issues; error in properly locating the line, error in properly mapping the system or excavator error where the line is marked correctly, and the excavator simply fails to avoid the underground line.

PHMSA grades of leaks. I would note that there has been a significant decrease in the age of leak inventory in 2016 and 2017, compared with 2015.

Average Age of Leaks
FY 2015- 105 Days
FY 2016 - 76 Days
FY 2017- 74 Days

Q32. PLEASE CONTINUE WITH AN EXPLANATION OF THE CUSTOMER SERVICE METRICS.

A32. The first metric is the answered call rate, which simply measures what percentage of customer calls are answered. This is another example where the results should be evaluated within the context of how the answered call rate is defined – which has not been established or evaluated for reasonableness. Notwithstanding the need for a common definition, in general the answered call rates provided appear reasonable, though the average speed of answer in 2017 of 1:02 seems somewhat lengthy.

Call Center Metrics

	2016	2017	
Average Tennessee Customers	138,657	140,544	A/
Average Calls Offered	323,160	325,697	*
Average Calls Answered	311,570	311,095	*
Average % Calls Answered	96%	96%	*
Average Speed of Answer	0:48	0:59	*

A/ 16-00105 & 17-00091 Revenue Requirement Schedules -True-Up, tab 11-2, column P total divided by 12
* Through September, 2017
Source: DR 1-21, attachment 1, 13-month average ending May

The next metric is the number of estimated bills. While some bill estimation is unavoidable, estimation of bills may translate to inaccurate bills during periods of fluctuating gas costs.

Number of Atmos TN Estimated Bills	
	Total
FY15	29,132
FY16	26,107
FY17	19,085

Q33. PLEASE CONTINUE WITH AN EXPLANATION OF THE NEXT METRIC.

A33. The next metric, the number of annual disconnects, is more of a simple but important reporting statistic. I believe it is important to note trends in this information as in part it may reflect the affordability of Atmos bills.

Number of Disconnects	
FY15	4,834
FY16	3,403
FY17	4,082

Q34. FINALLY, TURN TO THE FIRST COST METRIC, IDENTIFY IT AND EXPLAIN WHY IT IS IMPORTANT.

A34. The next metric is the average installation cost per service line. The majority of annual capital expenditures for Plant in Service involve the installation of service lines and mains. Therefore, it is important to evaluate this metric on an ongoing basis and investigate the causes for significant cost variances. The average service line costs below are consistent with what I have seen with another utility. I would note the significant increase in FY 2017 compared with FY 2016. Any similar increases in FY 2018 should be reviewed.

	FY 2015	FY 2016	FY 2017
Total Service Line Costs	$ 5,507,610	$ 6,502,292	$ 7,414,810
Total No. of Service Lines	2,976	3,638	3,689
Avg Cost per Service Line	$ 1,851	$ 1,787	$ 2,010

It is important to remember that profitability of a utility is dependent upon the growth in Rate Base. This incentive to grow rate base is at odds with consumer interests to pay

rates that are as low as possible. I am not suggesting Atmos has inflated its Rate Base, but rather I am highlighting the natural incentives under rate base rate of return regulation. Monitoring the unit costs of service lines and mains is an important indication of the effectiveness of management in controlling costs.

Q35. PLEASE CONTINUE WITH A DISCUSSION OF THE SECOND COST METRIC AND IDENTIFY THE RESULTS.

A35. The second cost metric is the measurement of the average cost per installed mile of main. Note the significant amounts spent on mains in each of the fiscal years, thus confirming the need for some measurement of the costs.

	FY 2015	FY 2016	FY 2017
Main Installation Dollars	$ 9,402,573	$ 15,986,693	$ 22,008,629
Miles of Main In-Service	35.12	53.94	82.47
Average Cost of Installed Main per Mile	$ 267,705	$ 296,354	$ 266,857

Q36. DOES THIS CONCLUDE YOUR TESTIMONY?

A36. Yes.

Exhibit DND-1

David Dittemore

Experience

Areas of Specialization

Approximately thirty-year experience in evaluating and preparing regulatory analysis, including revenue requirements, mergers and acquisitions, utility accounting and finance issues and public policy aspects of utility regulation. Presented testimony on behalf of my employers and clients in natural gas, electric, telecommunication and transportation matters covering a variety of issues.

Tennessee Attorney General's Office; **Financial Analyst September, 2017 – Current**
Responsible for evaluation of utility proposals on behalf of the Attorney General's office including water, wastewater and natural gas utility filings. Prepare analysis and expert witness testimony documenting findings and recommendations.

Kansas Gas Service; **Director Regulatory Affairs 2014 – 2017; Manager Regulatory Affairs, 2007 – 2014**

Responsible for directing the regulatory activity of Kansas Gas Service (KGS), a division of ONE Gas, serving approximately 625,000 customers throughout central and eastern Kansas. In this capacity I have formulated strategic regulatory objectives for KGS, formulated strategic legislative options for KGS and led a Kansas inter-utility task force to discuss those options, participated in ONE Gas financial planning meetings, hired and trained new employees and provided recommendations on operational procedures designed to reduce regulatory risk. Responsible for the overall management and processing of base rate cases (2012 and 2016). I also played an active role, including leading negotiations on behalf of ONE Gas in its Separation application from its former parent, ONEOK, before the Kansas Corporation Commission. I have monitored regulatory earnings, and continually determine potential ratemaking outcomes in the event of a rate case filing. I ensure that all required regulatory filings, including surcharges are submitted on a timely and accurate basis. I also am responsible for monitoring all electric utility rate filings to evaluate competitive impacts from rate design proposals.

Strategic Regulatory Solutions; 2003 -2007

Principal; Serving clients regarding revenue requirement and regulatory policy issues in the natural gas, electric and telecommunication sectors

Williams Energy Marketing and Trading; 2000-2003

Manager Regulatory Affairs; Monitored and researched a variety of state and federal electric regulatory issues. Participated in due diligence efforts in targeting investor owned electric utilities for full requirement power contracts. Researched key state and federal rules to identify potential advantages/disadvantages of entering a given market.

MCI WorldCom; 1999 – 2000

Manager, Wholesale Billing Resolution; Manage a group of professionals responsible for resolving Wholesale Billing Disputes greater than $50K. During my tenure, completed disputes increased by over 100%, rising to $150M per year.

Kansas Corporation Commission; 1984- 1999

Atmos Energy
Docket No. 18-00097 **Exhibit DND-2**
Adjustment to ADIT/Regulatory Liability
Resulting from the Application of TN specific Excise Tax Rate

Increase in ADIT	$	6,729,961	Exhibit DND-2-A
Increase in Regulatory Liability (Excess ADIT balance)		1,847,377	Exhibit DND-2-B
Total Increase in ADIT Balance	$	8,577,338	

Atmos Energy Corp
Docket No. 18-000097
Division 093
Synchronization of ADIT Balance with TN State Excise Tax Rate

Exhibit DND-2-A

	Monthly ADIT Balances /A	Divided By Composite Effective Rates /I.	Total Div 093 Book/Tax Differences	Effective Rate Using TN State Rate /II.	Revised ADIT Monthly Balances
May-17	(85,402,622)	36.50%	$ (234,011,843)	39.23%	$ (91,791,145)
Jun-17	(85,402,622)	36.50%	(234,011,843)	39.23%	(91,791,145)
Jul-17	(85,402,622)	36.50%	(234,011,843)	39.23%	(91,791,145)
Aug-17	(85,402,622)	36.50%	(234,011,843)	39.23%	(91,791,145)
Sep-17	(89,403,236)	36.50%	(244,973,930)	39.23%	(96,091,024)
Oct-17	(89,403,236)	36.50%	(244,973,930)	39.23%	(96,091,024)
Nov-17	(89,403,236)	36.50%	(244,973,930)	39.23%	(96,091,024)
Dec-17	(46,302,233)	22.82%	(202,928,664)	26.135%	(53,035,406)
Jan-18	(46,302,233)	22.82%	(202,928,664)	26.135%	(53,035,406)
Feb-18	(46,302,233)	22.82%	(202,928,664)	26.135%	(53,035,406)
Mar-18	(49,678,700)	22.82%	(217,726,697)	26.135%	(56,902,872)
Apr-18	(49,678,700)	22.82%	(217,726,697)	26.135%	(56,902,872)
May-18	(49,678,700)	22.82%	(217,726,697)	26.135%	(56,902,872)
Average	(69,058,692)				$ (75,788,653)

Rate Base Reduction	**6,729,961**

This adjustment is necessary to properly synchronize the use of the TN Excise Tax rate in the computation of Division 093 ADIT balances.

/A Exhibit GKW-1, WP 7-1

I. Composite Tax Rate Used by Atmos
Docket No. 18-00067 (CPAD 1-03, Attachment 5)

	TCJA Rate	Prior Rate
Federal	21.00%	35.00%
State	2.30%	2.30%
Federal Benefit of State	-0.48%	-0.81%
Total	22.817%	36.50%

** blended federal and state deferred rate

II. Blended Rate using TN State Tax Rate

	TCJA Rate	Prior Rate
Federal	21.00%	35.00%
State	6.50%	6.50%
Federal Benefit of State	-1.37%	-2.28%
Total	26.135%	39.23%

Atmos Energy Corporation
Re-Calculation of Excess Deferred Liability **Exhibit DND 2-B**
Synchronizing TN Tax rate with Excess ADIT Balances

Month	Excess ADIT	Divided By Composite Effective Rates /I.	Gross Excess Deferred ADIT	Effective Rate Using TN State Rate /II.	Revised Monthly Balance
May-17	0				0
Jun-17	0				0
Jul-17	0				0
Aug-17	0				0
Sep-17	0				0
Oct-17	0				0
Nov-17	0				0
Dec-17	29,024,530 1/	22.82%	127,205,724	26.135%	33,245,216
Jan-18	29,024,530	22.82%	127,205,724	26.135%	33,245,216
Feb-18	29,024,530	22.82%	127,205,724	26.135%	33,245,216
Mar-18	29,024,530	22.82%	127,205,724	26.135%	33,245,216
Apr-18	29,024,530	22.82%	127,205,724	26.135%	33,245,216
May-18	29,024,530	22.82%	127,205,724	26.135%	33,245,216
Average	13,395,937				15,343,946

Recalculated Regulatory Liability	15,343,946
Deferred Regulatory Liability	13,496,569
(GKW-1, WP7-10)	
Rate Base Reduction due to Regulatory Liability	1,847,377

1/ Per Atmos Updated Financials supplied in Docket No. 18-00034.
The information here differs slightly from that filed in Docket 18-00097 due to true-ups with the Atmos corporate tax return.

I. Composite Tax Rate Used by Atmos
Docket No. 18-00067 (CPAD 1-03, Attachment 5)

	TCJA Rate	Prior Rate
Federal	21.00%	35.00%
State	2.30%	2.30%
Federal Benefit of State	-0.48%	-0.81%
Total	22.817%	36.50%

** blended federal and state deferred rate

II. Blended Rate using TN State Tax Rate

	TCJA Rate	Prior Rate
Federal	21.00%	35.00%
State	6.50%	6.50%
Federal Benefit of State	-1.37%	-2.28%
Total	26.135%	39.23%

Atmos Energy
Docket No. 18-00097 **Exhibit DND-3**
Adjustment to ADIT/Regulatory Liability
Resulting from the Application of TN specific Excise Tax Rate

To eliminate ADIT associated with disallowed O&M costs	$	102,102	Rate Base Adj. # 1
To adjust ADIT to synchronize the calculation with the TN State Tax rate used in computing income tax expense	$	8,577,338	Rate Base Adj. # 2
Total Increase in ADIT/Reduction in Rate Base	$	8,679,440	