

**BEFORE  
THE TENNESSEE PUBLIC UTILITY COMMISSION**

Docket No. 18-00097

ON BEHALF OF

**THE CONSUMER PROTECTION UNIT  
OF THE  
OFFICE OF THE TENNESSEE ATTORNEY GENERAL**

*January 9, 2019*

IN THE TENNESSEE PUBLIC UTILITY COMMISSION  
AT NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION  
ANNUAL RECONCILIATION OF  
ANNUAL REVIEW MECHANISM

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DOCKET NO. 18-00097

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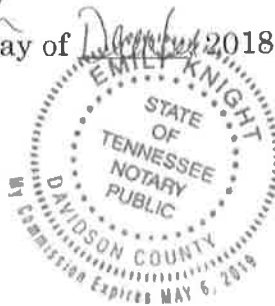
I, William H. Novak, CPA, on behalf of the Consumer Advocate Unit of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.

  
WILLIAM H. NOVAK

Sworn to and subscribed before me this 17<sup>th</sup> day of December, 2018.

  
NOTARY PUBLIC

My commission expires: May 6, 2018



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## ATTACHMENTS

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Attachment WHN-1	William H. Novak Vitae
Attachment WHN-2	Consumer Advocate Exhibit

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

3 ***A1.*** My name is William H. Novak. My business address is 19 Morning Arbor Place,  
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility  
5 consulting and expert witness services company.<sup>1</sup>

6  
7 ***Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***  
8 ***PROFESSIONAL EXPERIENCE.***

9 ***A2.*** A detailed description of my educational and professional background is provided  
10 in Attachment WHN-1 to my testimony. Briefly, I have both a Bachelor's degree  
11 in Business Administration with a major in Accounting, and a Master's degree in  
12 Business Administration from Middle Tennessee State University. I am a  
13 Certified Management Accountant, and am also licensed to practice as a Certified  
14 Public Accountant.

15  
16 My work experience has centered on regulated utilities for over 35 years. Before  
17 establishing WHN Consulting, I was Chief of the Energy & Water Division of the  
18 Tennessee Public Utility Commission (the Commission) where I had either  
19 presented testimony or advised the Commission on a host of regulatory issues for  
20 over 19 years. In addition, I was previously the Director of Rates & Regulatory  
21 Analysis for two years with Atlanta Gas Light Company, a natural gas  
22 distribution utility with operations in Georgia and Tennessee. I also served for

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<sup>1</sup> State of Tennessee, Registered Accounting Firm ID 3682.

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21 Analysis for two years with Atlanta Gas Light Company, a natural gas  
22 distribution utility with operations in Georgia and Tennessee. I also served for

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<sup>1</sup> State of Tennessee, Registered Accounting Firm ID 3682.

1 two years as the Vice President of Regulatory Compliance for Sequent Energy  
2 Management, a natural gas trading and optimization entity in Texas, where I was  
3 responsible for ensuring the firm's compliance with state and federal regulatory  
4 requirements.

5  
6 In 2004, I established WHN Consulting as a utility consulting and expert witness  
7 services company. Since 2004 WHN Consulting has provided testimony or  
8 consulting services to state public utility commissions and state consumer  
9 advocates in at least ten state jurisdictions as shown in Attachment WHN-1.

10  
11 ***Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?***

12 ***A3.*** I am testifying on behalf of the Consumer Advocate Unit (Consumer Advocate)  
13 of the Office of the Tennessee Attorney General.

14  
15 ***Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS DOCKETS***  
16 ***REGARDING ATMOS ENERGY CORPORATION?***

17 ***A4.*** Yes. I've presented testimony in TPUC Docket Nos. U-82-7211, U-83-7277, U-  
18 84-7333, U-86-7442, 89-10017, 92-02987, 05-00258, 07-00105 12-00064 and 14-  
19 00146 concerning cases involving either Atmos Energy Corporation (Atmos or  
20 Company) or its predecessor companies as well as dockets for other generic tariff  
21 and rulemaking matters. In addition, I previously presented testimony concerning  
22 Atmos' Annual Reconciliation Mechanism (ARM) tariff that is the subject of this

1 proceeding in TPUC Docket Nos. 14-00146, 16-00013, 16-00105, 17-00012, 17-  
2 00091 and 18-00067.

3  
4 ***Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***  
5 ***PROCEEDING?***

6 ***A5.*** My testimony will address several issues and concerns with respect to Atmos'  
7 proposed ARM reconciliation in this Docket with its books and records, including  
8 the calculations supporting that reconciliation and the resulting revenue  
9 deficiency or surplus.

10  
11 ***Q6. WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF***  
12 ***YOUR TESTIMONY?***

13 ***A6.*** I have reviewed the Company's Petition filed on September 4, 2018, along with  
14 the accompanying schedules as well as the later amendment and revisions to these  
15 schedules.<sup>2</sup> I have also reviewed Atmos' responses to the data requests submitted  
16 by the Consumer Advocate in this Docket. In addition, I reviewed the Stipulation  
17 and Settlement Agreement (14-00146 Settlement Agreement) between the  
18 Company and the Consumer Advocate in Docket No. 14-00146, which was  
19 incorporated into the Commission's Order in that Docket, and modifications in  
20 subsequent dockets that have been made to the relevant Approved Methodologies  
21 as defined in the 14-00146 Settlement Agreement.

22  

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<sup>2</sup> Atmos responses to Consumer Advocate Discovery Requests 1-1, 1-4 and 1-7 with revision to original schedules for correction of errors.

1 ***Q7. PLEASE SUMMARIZE YOUR RECOMMENDATIONS AND CONCERNS IN***  
2 ***THIS DOCKET.***

3 ***A7.*** My recommendations and concerns are summarized as follows:

- 4 • I recommend that the Commission reject Atmos' methodology to use the end-  
5 of-period balances for long-term debt and stockholder's equity to compute the  
6 capital structure in the ARM calculation instead of using the thirteen-month  
7 average balances recorded on the books.  
8
- 9 • I recommend that the Commission reject Atmos' methodology to "annualize"  
10 certain expenses related to long-term debt in the ARM calculation instead of  
11 using the actual twelve months-to-date expense recorded on the books.  
12
- 13 • I recommend that the Commission reject Atmos' use of certain rates in the  
14 revenue conversion factor that are based on margin instead of revenues.  
15
- 16 • I recommend that the Commission reject Atmos' calculation of the Allowance  
17 for Funds Used During Construction that is based on incorrect tax rates.  
18
- 19 • I recommend that the Commission approve Atmos' proposal for a pro forma  
20 blended federal income tax rate of 29.26% that reflects a systematic  
21 adjustment from the pre-2018 tax rate to the current rate.  
22

23 ***Q8. PLEASE EXPLAIN THE OVERALL STRUCTURE OF THE ARM AND THE***  
24 ***RELIEF THAT ATMOS IS ASKING FROM THE COMMISSION THROUGH***  
25 ***ITS PETITION.***

26 ***A8.*** The overall structure for the ARM was agreed to by Atmos and the Consumer  
27 Advocate in Docket No. 14-00146 and incorporated into the Commission's order  
28 in that Docket. The ARM structure generally provides for an adjustment to rates  
29 by incorporating Atmos' capital and operating budgets within the methodologies  
30 reflected in the Settlement Agreement in Docket No. 14-00146. The overall  
31 structure of the ARM also requires that the revenues received from the ARM be  
32 trued-up to actual costs. Since the establishment of the ARM in Docket No. 14-



00146,<sup>3</sup> Atmos has increased the rates paid by Tennessee consumers over \$3 million as shown below on Table 1.

Table 1 – ARM Rate Adjustments		
Docket No.	Docket Type	Amount
16-00013	Budget	\$4,887,864 <sup>4</sup>
16-00105	Reconciliation	4,612,293 <sup>5</sup>
17-00012	Budget	2,127,842 <sup>6</sup>
17-00091	Reconciliation	382,182 <sup>7</sup>
18-00067	Budget	-5,414,179 <sup>8</sup>
18-00097 – Atmos Proposed Reconciliation		-3,219,302 <sup>9</sup>
<b>Total</b>		<b>\$3,376,700</b>

As shown in Table 1 above, this current filing represents the third ARM reconciliation undertaken by Atmos since the adoption of new base rates in Docket No. 14-00146.

***Q9. HAS ATMOS ADJUSTED THE RECONCILIATION AMOUNT CONTAINED IN ITS INITIAL FILING?***

A9. Yes. In its Petition, Atmos requested the Commission to approve an ARM reconciliation of \$-3,219,825, that has since been revised to \$-3,219,302 in order to correct certain offsetting errors. Specifically, errors in Atmos' original filing related to plant in service, accumulated depreciation, and gas inventory were corrected and a revised reconciliation was submitted.<sup>10</sup>

<sup>3</sup> The increase in rates in Docket No. 14-00146 was \$711,472, which was significantly less than Atmos' original request in that Docket of approximately \$5.89 million.

<sup>4</sup> Commission Order in Docket No. 16-00013, Page 4.

<sup>5</sup> Commission Order in Docket No. 16-00105, Page 4.

<sup>6</sup> Commission Order in Docket No. 17-00012, Page 7.

<sup>7</sup> Commission Order in Docket No. 17-00091, Page 14.

<sup>8</sup> Commission Order in Docket No. 18-00067, Page 9 consisting of a revenue surplus of \$4,425,855 and an expense credit of \$988,324 and excluding the \$382,182 revenue deficiency in Docket No. 17-00091.

<sup>9</sup> Atmos response to Consumer Advocate Discovery Request 1-1.

<sup>10</sup> See Atmos responses to Consumer Advocate Discovery Requests 1-1, 1-4 and 1-7.

1  
2 ***Q10. HAVE YOU REVIEWED THE CALCULATIONS SUPPORTING THE***  
3 ***PROPOSED RATE ADJUSTMENT IN ATMOS' REVISED ARM***  
4 ***RECONCILIATION FILING?***

5 A10. Yes. I reviewed the Company's revised filing. I also prepared discovery requests  
6 for supplemental supporting information that was not contained in the filing. In  
7 addition, I have had discussions with Atmos regarding the filing. The purpose of  
8 my review was to determine whether Atmos' ARM reconciliation was based on  
9 actual amounts recorded on its books.  
10

11 ***Q11. WHAT WERE THE RESULTS OF YOUR REVIEW?***

12 A11. Overall, I found that Atmos' filing appropriately reconciled the actual revenues,  
13 expenses and net investment to the amounts recorded on the Company's ledger.  
14 Likewise, other than as noted within my testimony, I also found that the  
15 reconciliation generally reflected the methodologies established in Docket No. 14-  
16 00146.  
17

18 However, there were certain adjustments contained in this reconciliation filing  
19 that I disagree with as outlined below.

- 20 1. Atmos has calculated its capital structure for the ARM reconciliation period  
21 by using the end-of-period balances at May 31, 2018 for long-term debt and  
22 stockholder's equity rather than using the thirteen-month average balances  
23 recorded on the books.

- 1           2. Atmos has calculated certain expenses for its long-term debt costs for the
- 2           ARM reconciliation period by “annualizing” these expenses based upon the
- 3           amounts recorded for May 31, 2018 rather than using the actual twelve
- 4           months-to-date expense recorded on the books.
- 5           3. Atmos has incorrectly calculated the forfeited discount ratio and the
- 6           uncollectible expense ratio that are included as components in the revenue
- 7           conversion factor, by basing them on gross margin instead of revenues.
- 8           4. Atmos has incorrectly calculated Allowance for Funds Used During
- 9           Construction in the ARM reconciliation by using an incorrect tax rate.

10

11           In addition to these items, Atmos has also used a pro forma statutory rate of

12           29.26% to calculate income taxes. While I do agree with using this rate in the

13           current ARM reconciliation, I believe that its calculation merits more discussion

14           than what was included in Atmos’ filing.

15

16           As shown on Schedule 1 of the Consumer Advocate Exhibit, which I have

17           included as Attachment WHN-2 to my testimony, these adjustments, along with

18           the adjustments proposed by Consumer Advocate witness David N. Dittimore,

19           reduce the Company’s revised Reconciliation Revenue Requirement from

20           \$-2,771,312 to \$-4,282,190.<sup>11</sup> A detailed discussion for each of the issues I’ve

21           identified along with my recommendations for resolution of these issues follows.

22

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<sup>11</sup> Attachment WHN-2, Schedule 1, Line 8.

1 I. END-OF-PERIOD CAPITAL STRUCTURE

2  
3 ***Q12. MR. NOVAK, PLEASE DESCRIBE ATMOS' METHODOLOGY FOR***  
4 ***CALCULATING THE CAPITAL STRUCTURE FOR LONG-TERM DEBT***  
5 ***AND STOCKHOLDER'S EQUITY IN THE ARM RECONCILIATION***  
6 ***CALCULATION.***

7 A12. To calculate the capital structure for long-term debt and equity, Atmos takes the  
8 balance per books at the end of the ARM reconciliation period (May 31, 2018) of  
9 \$3,068,173,679 and \$4,738,600,109 respectively.<sup>12</sup>

10  
11 ***Q13. DOES ATMOS USE THIS SAME END-OF-PERIOD METHODOLOGY FOR***  
12 ***INCLUDING SHORT-TERM DEBT IN THE CAPITAL STRUCTURE?***

13 A13. No. For the short-term debt component of the capital structure, Atmos calculated  
14 the average daily balance over the entire ARM reconciliation period (June 1, 2017  
15 through May 31, 2018) of \$313,822,226.<sup>13</sup> The monthly balances of short-term  
16 debt, long-term debt and stockholder's equity during the reconciliation period are  
17 presented below in Table 2.

18  
19  
20  

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<sup>12</sup> Workpaper 9-1 of Atmos response to Consumer Advocate Discovery Request 1-1.

<sup>13</sup> Workpaper 9-1 of Atmos response to Consumer Advocate Discovery Request 1-1.

<b>Table 2 – Capital Structure Components<sup>14</sup></b>			
	<b>Short-Term Debt</b>	<b>Long-Term Debt</b>	<b>Stockholder's Equity</b>
May 2017	\$629,857,849	\$2,564,900,664	\$3,864,281,638
June	258,573,382	3,066,734,196	3,901,710,103
July	262,202,530	3,066,772,607	3,923,183,120
August	362,721,572	3,066,904,472	3,876,930,951
September	447,745,269	3,067,045,493	3,898,665,243
October	572,550,587	3,067,186,075	3,933,727,046
November	657,589,375	3,067,327,541	3,925,107,994
December	336,816,272	3,067,468,566	4,563,619,781
January 2018	268,675,526	3,067,609,586	4,666,561,070
February	215,748,079	3,067,750,610	4,695,448,924
March	129,601,816	3,067,891,634	4,721,346,388
April	109,795,722	3,068,032,655	4,768,024,508
May	143,843,586	3,068,173,679	4,738,600,109
<b>Average</b>	<b>\$313,822,226</b>	<b>\$3,028,753,675</b>	<b>\$4,267,477,452</b>

***Q14. DO YOU AGREE WITH ATMOS' METHODOLOGY FOR CALCULATING CAPITAL STRUCTURE?***

A14. No. The ultimate purpose of the ARM reconciliation mechanism is to true-up the actual allowable return earned to the return authorized by the Commission in Atmos's last rate case. By utilizing the end-of-period balances for long-term debt and stockholder's equity, Atmos has mismatched the capital structure with the average rate base that was necessary to produce the rate of return over the ARM reconciliation period. In addition, mismatching the different periods used by Atmos for short-term debt against long-term debt and stockholder's equity only exacerbates this issue.

<sup>14</sup> Workpaper 9-2 of Atmos response to Consumer Advocate Discovery Request 1-1.

1 ***Q15. WHAT IS ATMOS' RATIONALE FOR USING THE END-OF-PERIOD***  
2 ***BALANCES FOR LONG-TERM DEBT AND STOCKHOLDER'S EQUITY***  
3 ***TO CALCULATE THE CAPITAL STRUCTURE FOR THE ARM***  
4 ***RECONCILIATION PERIOD?***

5 A15. Atmos claims that their methodology for computing capital structure "...is done  
6 in accordance with the Approved Methodologies" of the Settlement Agreement in  
7 Docket No. 14-00146.<sup>15</sup> A review of the Settlement Agreement does show that the  
8 structure for the cost of debt and equity are to be taken from the balances at the  
9 end of each historic period as Atmos has done in this filing.<sup>16</sup> However, as shown  
10 above, the use of this procedure skews the capital structure with the rate base that  
11 was necessary to produce the rate of return over the ARM reconciliation period.

12  
13 ***Q16. WHAT ACTION DO YOU RECOMMEND THAT THE COMMISSION TAKE***  
14 ***WITH RESPECT TO THE CAPITAL STRUCTURE CALCULATION?***

15 A16. I recommend that the Commission reject Atmos' use of the end-of-period  
16 balances for calculating the capital structure. Instead, I would recommend that  
17 the Commission recognize the thirteen-month average balances of \$3,028,753,675  
18 and \$4,267,477,452 as the appropriate amounts for long-term debt and  
19 stockholder's equity respectively in the capital structure calculation since they  
20 represent the amounts that provided the average rate base during the ARM  
21 reconciliation period. However, I do agree with Atmos' methodology for  
22 calculating the average short-term debt cost in the capital structure of

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<sup>15</sup> Atmos response to Consumer Advocate Discovery Request 3-11.

<sup>16</sup> Settlement Agreement in Docket 14-00146, Item 131(i), Pages 25-25.

\$313,822,226 since it is based on the average balance over the ARM reconciliation period.

***Q17. WHAT IS THE IMPACT ON THE CAPITAL STRUCTURE OF CHANGING FROM THE END-OF-PERIOD BALANCES FOR LONG-TERM DEBT AND STOCKHOLDER'S EQUITY TO THE AVERAGE BALANCE DURING THE RECONCILIATION PERIOD?***

A17. As shown on Table 3 below, changing the capital structure to a 13-month average balance for long-term debt and stockholder's equity reduces the overall rate of return from 7.78% to 7.66%.

Table 3 – Capital Structure Comparison <sup>17</sup>				
Description	Amount	Structure	Cost	Weighted Cost
<b>Atmos Proposed Capital Structure:</b>				
Short-Term Debt	\$313,822,226	3.86%	2.27%	0.09%
Long-Term Debt	3,068,173,679	37.78%	5.21%	1.97%
Equity	4,738,600,109	58.35%	9.80%	5.72%
<b>Total</b>	<b>\$8,120,596,014</b>	<b>100.00%</b>		<b>7.78%</b>
<b>Consumer Advocate Proposed Capital Structure:</b>				
Short-Term Debt	\$313,822,226	4.12%	2.27%	0.09%
Long-Term Debt	3,028,753,675	39.80%	5.21%	2.07%
Equity	4,267,477,452	56.08%	9.80%	5.50%
<b>Total</b>	<b>\$7,610,053,353</b>	<b>100.00%</b>		<b>7.66%</b>

<sup>17</sup> Schedule 9 of Atmos response to Consumer Advocate Discovery Request 1-1.

## II. CALCULATION OF LONG-TERM DEBT COST

***Q18. MR. NOVAK, DOES THE LONG-TERM DEBT COST IN THE ARM  
RECOGNIZE THE APPROPRIATE CHARGES ON ATMOS BOOKS AND  
RECORDS DURING THE RECONCILIATION PERIOD?***

A18. Not entirely. Two components of long-term debt cost relate to the amortization of costs incurred to “lock-in” interest rates, and the amortization of debt discount. In order to calculate the costs of these two components in the ARM reconciliation, Atmos “annualized” the monthly expense at May 31, 2018 and used it as a proxy for the twelve-month expense. The monthly expense for these two accounts during the reconciliation period are presented below in Table 4.

<b>Table 4 – Interest Rate Lock-In and Debt Discount Amortization<sup>18</sup></b>			
<b>Month</b>	<b>Lock-In Amortization</b>	<b>Discount Amortization</b>	<b>Total</b>
June 2017	\$85,108	\$365,995	\$451,103
July	197,899	363,083	560,982
August	197,899	344,174	542,073
September	197,899	353,084	550,983
October	197,899	342,259	540,158
November	197,899	353,084	550,983
December	197,899	349,020	546,919
January 2018	197,899	350,515	548,414
February	197,899	350,515	548,414
March	197,899	350,515	548,414
April	197,899	350,515	548,414
May	197,899	350,515	548,414
<b>Total</b>	<b>\$2,261,997</b>	<b>\$4,223,274</b>	<b>\$6,485,271</b>
<b>May Annualized</b>	<b>\$2,374,790</b>	<b>\$4,206,175</b>	<b>\$6,580,966</b>
<b>Difference</b>	<b>\$-112,793</b>	<b>\$17,099</b>	<b>\$-95,695</b>

<sup>18</sup> Workpaper 9-3 of Atmos response to Consumer Advocate Discovery Request 1-1 along with Atmos responses to Consumer Advocate Discovery Requests 1-14 and 1-15.



1 ***Q19. DO YOU AGREE WITH ATMOS' METHODOLOGY FOR CALCULATING***  
2 ***THE INTEREST RATE LOCK-IN AND DEBT DISCOUNT AMORTIZATION***  
3 ***EXPENSE FOR LONG-TERM DEBT COSTS?***

4 A19. No. Again, the ultimate purpose of the ARM reconciliation mechanism is to true-  
5 up the actual allowable return earned to the return authorized by the Commission  
6 in Atmos's last rate case. Annualizing certain expenses based on the most recent  
7 monthly activity circumvents this intent and results in an incorrect calculation.

8  
9 ***Q20. WHAT IS ATMOS' RATIONALE FOR ANNUALIZING THE MAY 2018***  
10 ***EXPENSE TO CALCULATE THE RECONCILIATION PERIOD EXPENSE***  
11 ***FOR THE INTEREST RATE LOCK-IN AND DEBT DISCOUNT***  
12 ***AMORTIZATION EXPENSE FOR LONG-TERM DEBT COSTS?***

13 A20. Atmos claims that their methodology for computing capital structure "...is done  
14 in accordance with the Approved Methodologies" of the Settlement Agreement in  
15 Docket No. 14-00146.<sup>19</sup> A review of the Settlement Agreement does show that the  
16 calculation of these costs in the last rate case was carried out by annualizing the  
17 most recent activity. However, the results of that rate case were used specifically  
18 to forecast expense activity as opposed to reconciling expense activity in this  
19 Docket. As a result, it is inappropriate to use the annualization methodology to  
20 reconcile these expenses.

21  

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<sup>19</sup> Atmos response to Consumer Advocate Discovery Requests 2-8 and 3-16.

1 ***Q21. WHAT ACTION DO YOU RECOMMEND THAT THE COMMISSION TAKE***  
2 ***WITH RESPECT TO THESE LONG-TERM DEBT EXPENSES?***

3 A21. I recommend that the Commission reject Atmos' use of annualized expenses for  
4 the interest rate lock-in and debt discount amortizations. While this annualization  
5 method may have been an appropriate forecasting technique in the last rate case, it  
6 is not suitable in a reconciliation docket. Instead, I would recommend that the  
7 Commission recognize the twelve-month expense for these two items that are  
8 shown above on Table 4 as the appropriate amounts.

9  
10 ***Q22. WHAT IS THE IMPACT OF CHANGING FROM USING THE***  
11 ***ANNUALIZED EXPENSES FOR THE INTEREST RATE LOCK-IN AND***  
12 ***DEBT DISCOUNT AMORTIZATIONS TO THE TWELVE MONTH-TO-***  
13 ***DATE EXPENSE ON LONG-TERM DEBT RATE?***

14 A22. As shown above on Table 4, Atmos overstated the interest rate lock-in  
15 amortization by \$-112,793 while at the same time understated the debt discount  
16 amortization by \$17,099 from annualizing these costs. As a result, for this  
17 Docket, the net impact is an overstatement of expense by \$-95,695. Because this  
18 amount is relatively insignificant to total debt cost, it does not change the overall  
19 long-term debt rate of 5.21% shown above on Table 3. However, this does not  
20 mean that this change in methodology would not be material in future  
21 reconciliation dockets which is another reason why it should be implemented in  
22 this Docket.

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A23. Yes. Atmos calculates the forfeited discount and uncollectible expense ratios by taking the appropriate amount for the ARM reconciliation period and dividing by the operating margin as shown below in Table 5. These ratios are then used in the revenue conversion factor to “gross-up” any operating margin surplus or deficiency to a revenue surplus or deficiency.

<b>Item</b>	<b>Forfeited Discounts</b>	<b>Uncollectible Expense</b>
<b>Atmos Calculation:</b>		
ARM Reconciliation Amount	\$678,714	\$268,238
Operating Margin	70,668,366	66,096,621
<b>Ratio</b>	<b>0.009604</b>	<b>0.004058</b>
<b>Consumer Advocate Calculation:</b>		
ARM Reconciliation Amount	\$800,893	\$268,238
Operating Revenue	155,003,415	155,003,415
<b>Ratio</b>	<b>0.005167</b>	<b>0.001731</b>

***Q24. WHY ARE THE FORFEITED DISCOUNT AND UNCOLLECTIBLE EXPENSE RATIOS DIFFERENT IN THE ATMOS AND THE CONSUMER ADVOCATE CALCULATIONS?***

<sup>20</sup> Workpaper 8-2 of Atmos response to Consumer Advocate Discovery Request 1-1 and Schedule 7 of Consumer Advocate Exhibit.

1 A24. The calculations are different for a couple of reasons. First, it appears that Atmos  
2 has incorrectly used the forfeited discounts of \$678,714 from the last rate case  
3 instead of the \$800,893 balance from the current ARM reconciliation period.  
4 Secondly, Atmos has incorrectly used the operating margin instead of the  
5 operating revenues from the current ARM reconciliation period to calculate these  
6 ratios.

7  
8 ***Q25. WHY SHOULD OPERATING REVENUES INSTEAD OF OPERATING***  
9 ***MARGIN BE USED IN THE FORFEITED DISCOUNT AND***  
10 ***UNCOLLECTIBLE EXPENSE RATIO CALCULATIONS?***

11 A25. Because the purpose of these two ratios is to convert any operating margin  
12 deficiency or surplus approved by the Commission into operating revenues as  
13 shown on Consumer Advocate Exhibit, Schedule 7. Basing these ratios on  
14 operating margin would overstate their impact.

15  
16 ***Q26. WHAT IS ATMOS' RATIONALE FOR BASING THESE RATIOS ON***  
17 ***OPERATING MARGIN?***

18 A26. Atmos appears to agree that the forfeited discount ratio is calculated in error but  
19 believes that it is somehow done in accordance with the Approved Methodologies  
20 from Docket No. 14-00146.<sup>21</sup> For the uncollectible expense ratio, Atmos also  
21 appears to believe that it is somehow done in accordance with the Approved  
22 Methodologies from Docket No. 14-00146 and should be based on operating

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<sup>21</sup> Atmos response to Consumer Advocate Discovery Request 3-12.

margin since any gas cost related to uncollectible expense is recovered separately through the PGA mechanism.<sup>22</sup> However, Atmos' response for the uncollectible expense ratio ignores that this factor is used to convert operating margin into revenues as previously noted.

***Q27. WHAT ACTION DO YOU RECOMMEND THAT THE COMMISSION TAKE WITH RESPECT TO THE CALCULATION OF THE FORFEITED DISCOUNT AND UNCOLLECTIBLE EXPENSE RATIOS?***

A27. I recommend that the Commission adopt the current ARM reconciliation period amounts for the forfeited discount and uncollectible expense ratio calculations. I also recommend that the Commission adopt the current ARM reconciliation period revenues for the forfeited discount and uncollectible expense ratio calculations. Approval of both of these provisions in these calculations results in a forfeited discount ratio of 0.005167 and an uncollectible expense ratio of 0.001731 as shown on Table 5.

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<sup>22</sup> Atmos response to Consumer Advocate Discovery Request 3-13.

IV. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

**Q28. MR. NOVAK, DID YOU REVIEW ATMOS' CALCULATION OF THE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION?**

A28. Yes. Allowance for Funds Used During Construction, or AFUDC, represents capitalized finance costs associated with construction projects. During the ARM reconciliation period, Atmos recorded \$226,731 on its books for AFUDC. This amount was then "grossed-up" for its related tax impact for recovery through the ARM reconciliation as shown below on Table 6.

Table 6 – Allowance for Funds Used During Construction <sup>23</sup>		
Item	Tax Rate	AFUDC
<b>Atmos Calculation:</b>		
AFUDC Recorded		\$226,730
Less State Excise Tax Impact	7.90%	-17,912
Less Federal Income Tax Impact	21.00%	-43,852
<b>AFUDC for ARM Recovery</b>		<b>\$164,966</b>
<b>Consumer Advocate Calculation:</b>		
AFUDC Recorded		\$226,730
Less State Excise Tax Impact	6.50%	-14,738
Less Federal Income Tax Impact	29.26%	-62,029
<b>AFUDC for ARM Recovery</b>		<b>\$149,964</b>

**Q29. DO YOU AGREE WITH ATMOS' CALCULATION OF AFUDC FOR ARM RECOVERY?**

A29. I agree with the methodology used by Atmos for calculating AFUDC, however I disagree with the tax rates used by Atmos. Specifically, Atmos has used an

<sup>23</sup> Workpaper 1-2 of Atmos response to Consumer Advocate Discovery Request 1-1 and Schedule 4 of Consumer Advocate Exhibit.

1 incorrect state excise tax rate of 7.9% in its AFUDC calculation.<sup>24</sup> Atmos has  
2 also incorrectly used the new federal tax rate of 21.00% in the AFUDC  
3 calculation instead of the pro forma blended rate of 29.26% that reflects a  
4 weighted average of both the previous 35.00% rate as well as the current 21.00%  
5 rate.<sup>25</sup>

6  
7 ***Q30. WHAT ACTION DO YOU RECOMMEND THAT THE COMMISSION TAKE***  
8 ***WITH RESPECT TO AFUDC?***

9 A30. I recommend that the Commission adopt \$149,964 as the appropriate amount of  
10 AFUDC for inclusion in the current ARM reconciliation since it reflects the  
11 appropriate state and federal tax rates. This amount has been reflected on  
12 Schedule 4 of the Consumer Advocate Exhibit.

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<sup>24</sup> Atmos appears to concede to the error in using the incorrect state excise tax rate in its response to Consumer Advocate Discovery Request 1-15.

<sup>25</sup> This blended rate is discussed later in my testimony.

V. PRO FORMA FEDERAL INCOME TAX RATE

***Q31. MR. NOVAK, WHAT FEDERAL INCOME TAX RATE HAS ATMOS INCORPORATED INTO THE CURRENT ARM RECONCILIATION FILING?***

A31. Atmos has incorporated a blended federal income tax rate of 29.26% in its ARM reconciliation filing that reflects a weighted average of both the previous 35.00% tax rate as well as the current 21.00% tax rate.<sup>26</sup>

***Q32. HOW IS THIS BLENDED FEDERAL INCOME TAX RATE OF 29.26% CALCULATED?***

A32. The 29.26% blended federal income tax rate is calculated by weighting the number of days in the ARM reconciliation period at the previous 35% tax rate prior to 2018 with the current 21% tax rate after 2017. This calculation is shown below on Table 7.

Table 7 – Calculation of Blended Federal Income Tax Rate <sup>27</sup>				
ARM Reconciliation Period	Days	Percent	Tax Rate	Weighted Rate
Days from 6/1/17 – 12/31/17	214	59.00%	35.00%	20.65%
Days from 1/1/18 – 5/31/18	151	41.00%	21.00%	8.61%
<b>Total</b>	<b>365</b>	<b>100.00</b>		<b>29.26%</b>

***Q33. DO YOU AGREE WITH ATMOS' CALCULATION OF THIS BLENDED FEDERAL INCOME TAX RATE OF 29.26%?***

<sup>26</sup> Workpaper 8-2 of Atmos response to Consumer Advocate Discovery Request 1-1.

<sup>27</sup> Atmos response to Consumer Advocate Discovery Request 3-14.



1 A33. Yes. The blended rate of 29.26% appropriately captures the two different tax  
2 rates in the ARM reconciliation period, and I have incorporated this rate into the  
3 Consumer Advocate Exhibit.<sup>28</sup> As a result, I recommend that the Commission  
4 adopt this blended rate of 29.26% as appropriate for this ARM reconciliation.

5  
6 ***Q34. DOES THIS COMPLETE YOUR TESTIMONY?***

7 ***A34.*** Yes, it does. However, I reserve the right to incorporate any new information that  
8 may subsequently become available.

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<sup>28</sup> CPAD Exhibit, Schedules 6 and 7.

ATTACHMENT WHN-1

William H. Novak Vitae

**William H. Novak**

19 Morning Arbor Place  
The Woodlands, TX 77381

Phone: 713-298-1760

Email: halnovak@whnconsulting.com

**Areas of Specialization**

Over thirty-five years of experience in regulatory affairs and forecasting of financial information in the rate setting process for electric, gas, water and wastewater utilities. Presented testimony and analysis for state commissions on regulatory issues in four states and has presented testimony before the FERC on electric issues.

**Relevant Experience****WHN Consulting – September 2004 to Present**

In 2004, established WHN Consulting to provide utility consulting and expert testimony for energy and water utilities. WHN Consulting is a “complete needs” utility regulation firm able to provide clients with assistance in all areas of utility rate analysis. Since 2004, WHN Consulting has provided assistance to public utility commissions and state consumer advocates in over ten state jurisdictions. Some of the topics and issues that WHN Consulting has presented testimony for include net metering, alternative rate regulation, revenue requirement calculations in rate cases, class cost of service studies, rate design, deferred income tax calculations, purchased gas costs, purchased power costs, and weather normalization studies.

**Sequent Energy Management – February 2001 to July 2003**

Vice-President of Regulatory Compliance for approximately two years with Sequent Energy Management, a gas trading and optimization affiliate of AGL Resources. In that capacity, directed the duties of the regulatory compliance department, and reviewed and analyzed all regulatory filings and controls to ensure compliance with federal and state regulatory guidelines. Engaged and oversaw the work of a number of regulatory consultants and attorneys in various states where Sequent has operations. Identified asset management opportunities and regulatory issues for Sequent in various states. Presented regulatory proposals and testimony to eliminate wholesale gas rate fluctuations through hedging of all wholesale gas purchases for utilities. Also prepared testimony to allow gas marketers to compete with utilities for the transportation of wholesale gas to industrial users.

**Atlanta Gas Light Company – April 1999 to February 2001**

Director of Rates and Regulatory Analysis for approximately two years with AGL Resources, a public utility holding company serving approximately 1.9 million customers in Georgia, Tennessee, and Virginia. In that capacity, was instrumental in leading

Atlanta Gas Light Company through the most complete and comprehensive gas deregulation process in the country that involved terminating the utility's traditional gas recovery mechanism and instead allowing all 1.5 million AGL Resources customers in Georgia to choose their own gas marketer. Also responsible for all gas deregulation filings, as well as preparing and defending gas cost recovery and rate filings. Initiated a weather normalization adjustment in Virginia to track adjustments to company's revenues based on departures from normal weather. Analyzed the regulatory impacts of potential acquisition targets.

**Tennessee Regulatory Authority – Aug. 1982 to Apr 1999; Jul 2003 to Sep 2004**

Employed by the Tennessee Regulatory Authority (formerly the Tennessee Public Service Commission) for approximately 19 years, culminating as Chief of the Energy and Water Division. Responsible for directing the division's compliance and rate setting process for all gas, electric, and water utilities. Either presented analysis and testimony or advised the Commissioners/Directors on policy setting issues, including utility rate cases, electric and gas deregulation, gas cost recovery, weather normalization recovery, and various accounting related issues. Responsible for leading and supervising the purchased gas adjustment (PGA) and gas cost recovery calculation for all gas utilities. Responsible for overseeing the work of all energy and water consultants hired by the TRA for management audits of gas, electric and water utilities. Implemented a weather normalization process for water utilities that was adopted by the Commission and adopted by American Water Works Company in regulatory proceedings outside of Tennessee.

**Education**

B.A, Accounting, Middle Tennessee State University, 1981

MBA, Middle Tennessee State University, 1997

**Professional**

Certified Public Accountant (CPA), Tennessee Certificate # 7388

Certified Management Accountant (CMA), Certificate # 7880

Former Vice-Chairman of National Association of Regulatory Utility Commission's Subcommittee on Natural Gas

# Witness History for William H. Novak, CPA Selected Cases

State	Company/Sponsor	Year	Assignment	Docket
Louisiana	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Akla	<a href="#">S-32534</a>
	CenterPoint Energy/Louisiana PSC	2011	Audit of PGA Filings from 2002 - 2008 of CenterPoint Entex	<a href="#">S-32537</a>
	Louisiana Electric Utilities/Louisiana PSC	2012	Technical Consultant for Impact of Net Meter Subsidy on other Electric Customers	<a href="#">R-31417</a>
	Aqua Utilities/Aqua Utilities	2006	Presentation of Rate Case on behalf of Aqua Utilities	<a href="#">06-00187</a>
Tennessee	Altmos Energy Corporation/Altmos Intervention Group	2007	Rate design for Industrial Intervenor Group	<a href="#">07-00105</a>
	Bristol TN Essential Services/BTES	2009	Audit of Cost Allocation Manual	<a href="#">05-00251</a>
	Chattanooga Manufacturers Association/CMA	2009	Spokesperson for Industrial Natural Gas Users before the Tennessee State Legislature	<a href="#">HB-1349</a>
	Piedmont Natural Gas Company/Tennessee AG	2011	Rate Case Audit - Revenue, Class Cost of Service Study & Rate Design	<a href="#">11-00144</a>
	Tennessee-American Water Company/Tennessee AG	2012	Rate Case Audit - Revenues, Rate Base, Class Cost of Service Study and Rate Design	<a href="#">12-00049</a>
	Tennessee-American Water Company/Tennessee AG	2013-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	<a href="#">16-00126</a>
	Piedmont Natural Gas Company/Tennessee AG	2013-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	<a href="#">16-00140</a>
	Piedmont Natural Gas Company/Tennessee AG	2014	Audit of Recovery of Compressed Natural Gas Infrastructure Costs	<a href="#">14-00086</a>
	Piedmont Natural Gas Company/Tennessee AG	2014	Audit of Accumulated Deferred Federal Income Tax	<a href="#">14-00017</a>
	Altmos Energy Corporation/Tennessee AG	2014	Rate Case Audit - Revenues, O&M Expenses, Rate Base and Rate Design	<a href="#">14-00146</a>
	Altmos Energy Corporation/Tennessee AG	2015-2017	Alternative Regulation - Audit of Budget & True-up Filings, Rate Design	<a href="#">16-00105</a>
	B&W Gas Company/B&W	2015	Presentation of Rate Case on behalf of B&W Gas Company	<a href="#">15-00042</a>
	AEP & Kingsport Power/Tennessee AG	2015	Audit of Storm Costs and Rate Recovery	<a href="#">15-00024</a>
	AEP & Kingsport Power/Tennessee AG	2016	Rate Case Audit - Revenue, Rate Base, Class Cost of Service Study & Rate Design	<a href="#">16-00001</a>
	Jefferson County (Birmingham) Wastewater/Alabama AG	2013	Bankruptcy Filing - Allowable Costs and Rate Design	<a href="#">2009-2318</a>
Alabama	Peoples & North Shore Gas Cos./Illinois Commerce Comm.	2007	Management Audit of Gas Purchasing Practices	<a href="#">06-0556</a>
Illinois	Southwestern Public Service Co./New Mexico PRC	2010	Financial Audit of Fuel Costs for 2009 and 2010	<a href="#">09-00351-UT</a>
New Mexico	National Grid/New York PSC	2011	Audit of Affiliate Relationships and Transactions	<a href="#">10-M-0451</a>
Ohio	Ohio-American Water Company/Ohio Consumers' Counsel	2010	Rate Case Audit - Class Cost of Service and Rate Design	<a href="#">09-0391-WS-AIR</a>
	Vectren Energy Delivery of Ohio/Ohio Consumers' Counsel	2008	Rate Case Audit - Class Cost of Service and Rate Design	<a href="#">07-1080-GA-AIR</a>
Texas	Duke Energy-Ohio/Public Utilities Commission of Ohio	2009	Focused Management Audit of Fuel & Purchased Power (FPP Riders)	<a href="#">07-0723-EL-JUNC</a>
	Center Point Energy/Texas AG	2009	Rate Case Audit - Class Cost of Service and Rate Design	<a href="#">GUD 9902</a>
	Sharyland Utilities/SI, Lawrence Cotton Growers Assn.	2017	Rate Case Audit - Class Cost of Service and Rate Design	<a href="#">PUC 45414</a>
	Aqua Utilities/PSS Legal Fund	2011	Rate Case Audit - Class Cost of Service and Rate Design	<a href="#">W-218, Sub-319</a>
Washington DC	Washington Gas Light Co./Public Service Comm of DC	2011	Audit of Tariff Rider for Infrastructure Replacement Costs	<a href="#">1027</a>
NARUC	National Association of Regulatory Utility Commissioners	2015	Presentation of Regulatory Issues with Net Metering Customers on Rates of Electric Utilities	

NOTE: Click on Docket Number to view testimony/report for each case where available.

**ATTACHMENT WHN-2**  
**Consumer Advocate Exhibit**

**BEFORE  
THE TENNESSEE PUBLIC UTILITY COMMISSION**

Petition of Atmos Energy Corporation for  
Approval of 2018 Annual Reconciliation  
Filing

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Docket No. 18-00097

**EXHIBIT  
OF  
THE CONSUMER ADVOCATE UNIT  
OF THE  
OFFICE OF THE TENNESSEE ATTORNEY GENERAL**

*January 9, 2019*

**ATMOS ENERGY CORPORATION**  
**INDEX TO SCHEDULES**  
For the 12 Months Ending May 31, 2018

	<u><b>Schedule</b></u>
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Lead Lag Results	3
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Taxes Other than Income Income Taxes	5
Excise and Income Taxes	6
Rate of Return Summary	7
Revenue Conversion Factor	8



**ATMOS ENERGY CORPORATION**  
**ARM Reconciliation Revenue Deficiency/Surplus**  
**For the 12 Months Ending May 31, 2018**

Line No.		Docket 18-00097			
		ARM Reconciliation 16-00105 A/	ARM Reconciliation 17-00091 B/	Atmos Amended C/	CPAD D/
1	Rate Base	\$ 253,040,062	\$ 278,474,552	\$ 311,532,072	\$ 303,079,756
2	Operating Income At Current Rates	15,885,421	20,599,391	26,080,313	26,058,196
3	Earned Rate Of Return	6.28%	7.40%	8.37%	8.60%
4	Fair Rate Of Return	7.57%	7.47%	7.78%	7.66%
5	Required Operating Income	19,155,134	20,802,049	24,237,195	23,215,909
6	Operating Income Deficiency	3,269,713	202,658	-1,843,118	-2,842,287
7	Gross Revenue Conversion Factor	<u>1.631900</u>	<u>1.632800</u>	<u>1.503600</u>	<u>1.506600</u>
8	<b>Revenue Deficiency Before Tax Adj.</b>	<b>\$ <u>5,335,844</u></b>	<b>\$ <u>330,900</u></b>	<b>\$ <u>-2,771,312</u></b>	<b>\$ <u>-4,282,190</u></b>
9	Actual Income Taxes	\$ 7,120,772			
10	Calculated Income Taxes	<u>8,470,641</u>			
11	<b>Income Tax True-Up</b>	<b>\$ <u>-1,349,869</u></b>			
12	Revenue Deficiency After Tax Adj.	\$ 3,985,975	\$ 330,900	\$ -2,771,312	\$ -4,282,190
13	Carrying Cost (2 Years)	<u>626,318</u>	<u>51,283</u>	<u>-447,990</u>	<u>-681,157</u>
14	<b>Total Revenue Deficiency</b>	<b>\$ <u>4,612,293</u></b>	<b>\$ <u>382,183</u></b>	<b>\$ <u>-3,219,302</u></b>	<b>\$ <u>-4,963,347</u></b>

A/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.

B/ Company Rebuttal Exhibit GKW-1 in Docket 17-00091.

C/ Company Amended Reconciliation Model filed in response to Consumer Advocate data request 1-1.

D/ CPAD Workpapers.

**ATMOS ENERGY CORPORATION**  
Average Rate Base  
For the 12 Months Ending May 31, 2018

Line No.		ARM	ARM	Docket 18-00097	
		Reconciliation 16-00105 A/	Reconciliation 17-00091 B/	Atmos Amended C/	CPAD D/
Additions:					
1	Utility Plant in Service	\$ 476,544,021	\$ 508,719,238	\$ 546,605,030	\$ 546,606,504
2	Construction Work in Progress	8,493,083	12,056,378	18,629,890	18,629,921
3	Gas Inventory	4,684,648	3,964,592	4,555,955	4,555,962
4	Materials & Supplies	7,377	32,260	31,504	31,504
5	Deferred Regulatory Costs	973,868	324,623	-13,496,569	-13,496,568
6	Intercompany Leased Property	5,774,164	5,801,552	5,495,201	5,495,201
7	Working Capital	<u>1,066,982</u>	<u>1,302,674</u>	<u>1,129,483</u>	<u>1,355,694</u>
8	Total Additions	<u>\$ 497,544,143</u>	<u>\$ 532,201,317</u>	<u>\$ 562,950,494</u>	<u>\$ 563,178,217</u>
Deductions:					
9	Accumulated Depreciation	\$ 189,995,951	\$ 196,883,898	\$ 204,625,542	\$ 204,625,920
10	Capitalized Incentive Compensation	0	2,475,263	3,401,987	3,401,987
11	Accumulated Deferred Income Taxes	49,647,283	50,680,474	41,694,823	50,374,485
12	Operating Reserves	0	0	0	0
13	Customer Advances for Construction	76,428	37,337	19,995	19,995
14	Customer Deposits	4,717,109	3,596,656	1,624,026	1,624,026
15	Accumulated Interest on Customer Deposits	<u>67,310</u>	<u>53,137</u>	<u>52,049</u>	<u>52,049</u>
16	Total Deductions	<u>\$ 244,504,081</u>	<u>\$ 253,726,765</u>	<u>\$ 251,418,422</u>	<u>\$ 260,098,462</u>
17	Rate Base	<u>\$ 253,040,062</u>	<u>\$ 278,474,552</u>	<u>\$ 311,532,072</u>	<u>\$ 303,079,756</u>

- A/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.  
B/ Company Rebuttal Exhibit GKW-1 in Docket 17-00091.  
C/ Company Amended Reconciliation Model filed in response to CPAD data request 1-1.  
D/ Consumer Advocate Workpapers.

**ATMOS ENERGY CORPORATION**  
Lead Lag Results  
For the 12 Months Ending May 31, 2018

Line No.		ARM	ARM	Docket 18-00097	
		Reconciliation 16-00105 A/	Reconciliation 17-00091 B/	Atmos Amended C/	CPAD D/
1	Revenue Lag	37.50	37.50	37.50	37.50
2	Expense Lag	33.97	33.59	34.70	34.20
3	Net Lag	3.53	3.91	2.80	3.30
4	Daily Cost of Service	\$ 302,685	\$ 333,159	\$ 404,028	\$ 411,314
5	Lead Lag Study	\$ 1,066,982	\$ 1,302,674	\$ 1,129,483	\$ 1,355,694

- A/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.  
B/ Company Rebuttal Exhibit GKW-1 in Docket 17-00091.  
C/ Company Amended Reconciliation Model filed in response to CPAD data request 1-1.  
D/ Consumer Advocate Workpapers.

**ATMOS ENERGY CORPORATION**  
Income Statement at Current Rates  
For the 12 Months Ending May 31, 2018

Line No.		ARM		Docket 18-00097	
		Reconciliation 16-00105 A/	Reconciliation 17-00091 B/	Atmos Amended C/	CPAD D/
	<b>Operating Revenues:</b>				
1	Gas Sales & Transportation Revenues	\$ 105,542,954	\$ 120,146,893	\$ 149,152,107	\$ 149,152,107
2	Other Revenues	1,040,691	1,111,750	1,239,009	1,239,009
3	AFUDC	41,170	69,879	164,966	149,964
4	<b>Total Operating Revenue</b>	<b>\$ 106,624,815</b>	<b>\$ 121,328,322</b>	<b>\$ 150,556,082</b>	<b>\$ 150,541,080</b>
	<b>Operating &amp; Maintenance Expenses:</b>				
5	Purchased Gas Expense	\$ 42,105,404	\$ 49,958,064	\$ 73,565,057	\$ 73,565,060
6	Operations & Maintenance - Labor	7,710,404	8,010,809	7,780,145	7,780,145
7	Operations & Maintenance - NonLabor	15,301,031	13,711,916	12,931,857	12,931,859
8	<b>Total O&amp;M Expenses</b>	<b>\$ 65,116,839</b>	<b>\$ 71,680,789</b>	<b>\$ 94,277,059</b>	<b>\$ 94,277,064</b>
	<b>Other Expenses:</b>				
9	Depreciation Expense	\$ 11,498,891	\$ 11,858,675	\$ 12,652,532	\$ 12,652,533
10	Interest on Customer Deposits	167,831	132,163	78,864	78,864
11	General Taxes	7,551,324	7,743,266	7,486,379	7,486,379
12	State Excise Taxes	1,061,295	1,543,435	1,916,117	1,917,482
13	Federal Income Taxes	5,343,214	7,770,603	8,064,818	8,070,562
14	<b>Total Other Expenses</b>	<b>\$ 25,622,555</b>	<b>\$ 29,048,142</b>	<b>\$ 30,198,710</b>	<b>\$ 30,205,820</b>
15	<b>Total Operating Expenses</b>	<b>\$ 90,739,394</b>	<b>\$ 100,728,931</b>	<b>\$ 124,475,769</b>	<b>\$ 124,482,884</b>
16	<b>Utility Operating Income</b>	<b>\$ 15,885,421</b>	<b>\$ 20,599,391</b>	<b>\$ 26,080,313</b>	<b>\$ 26,058,196</b>

A/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.

B/ Company Rebuttal Exhibit GKW-1 in Docket 17-00091.

C/ Company Amended Reconciliation Model filed in response to CPAD data request 1-1.

D/ Consumer Advocate Workpapers.

**ATMOS ENERGY CORPORATION**  
Taxes Other than Income Taxes  
For the 12 Months Ending May 31, 2018

Line No.		ARM Reconciliation 16-00105 A/	ARM Reconciliation 17-00091 B/	Docket 18-00097	
				Atmos Amended C/	CPAD D/
1	Property Taxes	\$ 4,156,162	\$ 4,473,319	\$ 4,678,803	\$ 4,678,803
2	TPUC Inspection Fee	641,342	552,733	494,731	494,731
3	Payroll Taxes	579,317	615,849	610,344	610,344
4	Franchise Tax	707,000	722,167	788,497	788,497
5	Gross Receipts Tax	1,447,204	1,369,230	881,921	881,921
6	Allocated & Other Taxes	20,299	9,968	32,083	32,083
7	<b>Total</b>	<b>\$ 7,551,324</b>	<b>\$ 7,743,266</b>	<b>\$ 7,486,379</b>	<b>\$ 7,486,379</b>

- A/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.  
B/ Company Rebuttal Exhibit GKW-1 in Docket 17-00091.  
C/ Company Amended Reconciliation Model filed in response to CPAD data request 1-1.  
D/ Consumer Advocate Workpapers.

**ATMOS ENERGY CORPORATION**  
Excise and Income Taxes  
For the 12 Months Ending May 31, 2018

Line No.		ARM	ARM	Docket 18-00097	
		Reconciliation 16-00105 A/	Reconciliation 17-00091 B/	Atmos Amended C/	CPAD D/
1	<b>Operating Revenues</b>	<b>\$ 106,583,646</b>	<b>\$ 121,268,643</b>	<b>\$ 150,391,116</b>	<b>\$ 150,541,080</b>
	<b>Operating Expenses:</b>				
2	Purchased Gas Expense	\$ 42,105,404	\$ 49,958,064	\$ 73,565,057	\$ 73,565,060
3	O&M Expenses	23,011,435	21,722,725	20,712,003	20,712,004
4	Depreciation Expense	11,498,891	11,858,675	12,652,532	12,652,533
5	Interest on Customer Deposits	167,831	132,163	78,864	78,864
6	General Taxes	7,551,324	7,743,266	7,486,379	7,486,379
7	<b>Total Operating Expenses</b>	<b>\$ 84,334,885</b>	<b>\$ 91,414,893</b>	<b>\$ 114,494,835</b>	<b>\$ 114,494,840</b>
8	<b>NOI Before Excise and Income Taxes</b>	<b>\$ 22,248,760</b>	<b>\$ 29,843,750</b>	<b>\$ 35,896,281</b>	<b>\$ 36,046,240</b>
9	AFUDC	0	0	0	0
10	Interest Expense	5,921,137	6,098,593	6,417,561	6,546,523
11	<b>Pre-tax Book Income</b>	<b>\$ 16,327,623</b>	<b>\$ 23,745,157</b>	<b>\$ 29,478,720</b>	<b>\$ 29,499,717</b>
12	Schedule M Adjustments	16,327,623	23,745,157	29,478,720	29,499,717
13	<b>Excise Taxable Income</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
14	Excise Tax Rate	6.50%	6.50%	6.50%	6.50%
15	<b>Excise Tax Payable</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
16	Excise Tax - Deferred	1,061,295	1,543,435	1,916,117	1,917,482
17	<b>State Excise Tax Expense</b>	<b>\$ 1,061,295</b>	<b>\$ 1,543,435</b>	<b>\$ 1,916,117</b>	<b>\$ 1,917,482</b>
18	<b>Pre-tax Book Income</b>	<b>\$ 16,327,623</b>	<b>\$ 23,745,157</b>	<b>\$ 29,478,720</b>	<b>\$ 29,499,717</b>
19	State Excise Tax Expense	1,061,295	1,543,435	1,916,117	1,917,482
20	Schedule M Adjustments	15,266,327	22,201,722	27,562,603	27,582,236
21	<b>FIT Taxable Income</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
22	FIT Rate	35.00%	35.00%	29.26% E/	29.26% E/
23	<b>Federal Income Tax Payable</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
24	FIT - Deferred	5,343,214	7,770,603	8,064,818	8,070,562
25	<b>Federal Income Tax Expense</b>	<b>\$ 5,343,214</b>	<b>\$ 7,770,603</b>	<b>\$ 8,064,818</b>	<b>\$ 8,070,562</b>

A/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.

B/ Company Rebuttal Exhibit GKW-1 in Docket 17-00091.

C/ Company Amended Reconciliation Model filed in response to CPAD data request 1-1.

D/ Consumer Advocate Workpapers.

E/ Company response to CPAD data request 3-14 in Docket 18-00097.

**ATMOS ENERGY CORPORATION**  
Revenue Conversion Factor  
For the 12 Months Ending May 31, 2018

Line No.		ARM	ARM	Docket 18-00097	
		Reconciliation 16-00105 A/	Reconciliation 17-00091 B/	Atmos Amended C/	CPAD D/
1	<b>Tax Rates:</b>				
	Forfeited Discounts	0.010971	0.012535	0.009604	0.005325
2	Uncollectible Ratio	0.002682	0.004752	0.004058	0.001784
	State Excise Tax Rate	0.065000	0.065000	0.065000	0.065000
3	Federal Income Tax Rate	0.350000	0.350000	0.292600	0.292600
4					
	Operating Revenues	1.000000	1.000000	1.000000	1.000000
5	Forfeited Discount Adjustment	0.010971	0.012535	0.009604	0.005325
	<b>Balance</b>	<b>1.010971</b>	<b>1.012535</b>	<b>1.009604</b>	<b>1.005325</b>
6					
	Uncollectible Ratio Adjustment	-0.002711	-0.004812	-0.004097	-0.001793
7	<b>Balance</b>	<b>1.008260</b>	<b>1.007723</b>	<b>1.005507</b>	<b>1.003532</b>
8					
	State Excise Tax Adjustment	-0.065537	-0.065502	-0.065358	-0.065230
	<b>Balance</b>	<b>0.942723</b>	<b>0.942221</b>	<b>0.940149</b>	<b>0.938302</b>
9					
	Federal Income Tax Adjustment	-0.329953	-0.329777	-0.275088	-0.274547
10	<b>Balance</b>	<b>0.612770</b>	<b>0.612444</b>	<b>0.665061</b>	<b>0.663755</b>
	<b>Revenue Conversion Factor</b>	<b>1.631900</b>	<b>1.632800</b>	<b>1.503600</b>	<b>1.506600</b>

- A/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.  
B/ Company Rebuttal Exhibit GKW-1 in Docket 17-00091.  
C/ Company Amended Reconciliation Model filed in response to CPAD data request 1-1.  
D/ Consumer Advocate Workpapers.

**ATMOS ENERGY CORPORATION**  
Rate of Return Summary  
For the 12 Months Ending May 31, 2018

Line No.	Class of Capital	ARM Reconciliation 16-00105 A/		ARM Reconciliation 17-00091 B/		Docket 18-00097	
						Atmos Amended C/	CPAD D/
	<b>Capital Structure:</b>						
1	Short-Term Debt	8.55%		10.41%		3.86%	4.12%
2	Long-Term Debt	38.11%		35.74%		37.78%	39.80%
3	Common Equity	53.34%		53.85%		58.35%	56.08%
4	<b>Total</b>	<b>100.00%</b>		<b>100.00%</b>		<b>100.00%</b>	<b>100.00%</b>
	<b>Capital Cost:</b>						
5	Short-Term Debt	1.07%		1.24%		2.27%	2.27%
6	Long-Term Debt	5.90%		5.75%		5.21%	5.21%
7	Common Equity	9.80%		9.80%		9.80%	9.80%
	<b>Weighted Cost:</b>						
8	Short-Term Debt	0.09%		0.13%		0.09%	0.09%
9	Long-Term Debt	2.25%		2.06%		1.97%	2.07%
10	Common Equity	5.23%		5.28%		5.72%	5.50%
11	<b>Total</b>	<b>7.57%</b>		<b>7.47%</b>		<b>7.78%</b>	<b>7.66%</b>
	<b>Interest Expense Short-Term Debt:</b>						
12	Rate Base	\$ 253,040,062		\$ 278,474,552		\$ 311,532,072	\$ 303,079,756
13	Short-Term Weighted Debt Cost	0.09%		0.13%		0.09%	0.09%
14	<b>Total Short-Term Debt</b>	<b>\$ 227,736</b>		<b>\$ 362,017</b>		<b>\$ 280,379</b>	<b>\$ 272,772</b>
	<b>Interest Expense Long-Term Debt:</b>						
15	Rate Base	\$ 253,040,062		\$ 278,474,552		\$ 311,532,072	\$ 303,079,756
16	Long-Term Weighted Debt Cost	2.25%		2.06%		1.97%	2.07%
17	<b>Total Long-Term Debt</b>	<b>\$ 5,693,401</b>		<b>\$ 5,736,576</b>		<b>\$ 6,137,182</b>	<b>\$ 6,273,751</b>
18	<b>Total Interest Expense</b>	<b>\$ 5,921,137</b>		<b>\$ 6,098,593</b>		<b>\$ 6,417,561</b>	<b>\$ 6,546,523</b>

A/ Exhibit A to Settlement Agreement of 12/16/16 in Docket 16-00105.

B/ Company Rebuttal Exhibit GW-1 in Docket 17-00091.

C/ Company Amended Reconciliation Model filed in response to CPAD data request 1-1.

D/ Consumer Advocate Workpapers.