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February 6, 2019

Victoria Lawless
Dockets Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37242

VIA E-MAIL AND HAND DELIVERY

RE: Atmos Energy Corporation – 2018 ARM Reconciliation Filing
TPUC Docket No. 18-00097

Dear Ms. Lawless:

Enclosed is Atmos Energy Corporation's Rebuttal Testimony of Gregory K. Waller and Jennifer K. Story in the referenced matter.

In accordance with TPUC practice, I have enclosed an electronic copy in PDF format for posting to the website, along with an original and four hard copies.

A second thumb drive is also included for Staff use which contains the material in PDF and native Excel format.

Please feel free to contact me if you have any questions.

Best regards.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Scott Ross', is written over a light gray rectangular background.

A. Scott Ross

ASR:prd

Enclosures

Victoria Lawless

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February 6, 2019

cc: Vance Broemel, Esq.
Karen Stachowski, Esq.
Wayne Irvin, Esq.

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

IN RE:

ATMOS ENERGY CORPORATION)	
ANNUAL RECONCILIATION)	DOCKET NO. 18-00097
OF ANNUAL REVIEW MECHANISM)	

**REBUTTAL 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 5420 LBJ Freeway, Suite
4 1600, Dallas, TX 75240. I am employed by Atmos Energy Corporation ("Atmos
5 Energy" or the "Company") as Director of Regulatory Reporting.

6 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

7 A. As Director of Regulatory Reporting for Atmos Energy, I am responsible for
8 oversight and management of the integration of the Company's financial books and
9 records in rate and regulatory filings. I am responsible for managing regulatory
10 income tax matters for the Company as well as assisting in the coordination of the
11 Company's rate and regulatory strategy. This oversight includes ensuring that the
12 Company's rate filings appropriately reflect income tax expense and accumulated
13 deferred income taxes ("ADIT") and are in compliance with applicable IRS
14 requirements.

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. After joining Atmos Energy, as
8 Director of Income Tax, I assumed the oversight and management of all income tax
9 matters for the Company. In January 2019 I became Director of Regulatory
10 Reporting. I serve as a representative for the Company on the American Gas
11 Association's Tax Committee.

12 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE TENNESSEE**
13 **PUBLIC UTILITY COMMISSION ("COMMISSION") OR OTHER**
14 **REGULATORY COMMISSIONS?**

15 A. Yes. I have submitted direct and rebuttal testimony regarding income taxes in the
16 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
Kentucky Public Service Commission	Docket No. 2018-00281	Direct
Colorado Public Utilities Commission	Proceeding No. 15AL-0299G	Rebuttal
Mississippi Public Service Commission	Docket No. 2015-UN-049	Rebuttal
Railroad Commission of Texas	GUD No. 10580	Rebuttal
Railroad Commission of Texas	GUD No. 10640	Rebuttal
Railroad Commission of Texas	GUD No. 10742	Direct
Railroad Commission of Texas	GUD No. 10743	Direct
Railroad Commission of Texas	GUD No. 10779	Direct and Rebuttal
Tennessee Public Utility Commission	Docket No. 17-00012	Direct and Rebuttal
Tennessee Public Utility Commission	Docket No. 18-00067	Direct
Tennessee Public Utility Commission	Docket No. 18-00034	Direct and Rebuttal
Virginia State Corporation Commission	Case No. PUR-2018-00014	Direct

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. HAVE YOU REVIEWED THE INTERVENOR TESTIMONY FILED BY CONSUMER ADVOCATE WITNESS DAVID N. DITTEMORE IN THIS CASE?

A. Yes, I have reviewed the portions of Witness David Dittemore's testimony related to his proposed adjustments to the Company's requested ADIT balance.

Q. ARE YOU SPONSORING ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I rebut the arguments made by Mr. Dittemore regarding certain proposed adjustments to ADIT. Specifically, I rebut Mr. Dittemore's proposal to remove the ADIT balance related to the Directors Stock plan. I also rebut Mr. Dittemore's

1 proposal and supporting calculations for adjusting ADIT in this filing to reflect
2 amounts calculated using the Tennessee statutory excise tax rate.

3 **III. AREAS OF AGREEMENT**

4 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS IN MR.**
5 **DITTEMORE'S TESTIMONY WITH WHICH YOU AGREE.**

6 A. Mr. Dittmore has proposed to eliminate certain ADIT items in order to synchronize
7 the ADIT balance associated with certain expenses¹. The Company agrees with Mr.
8 Dittmore's proposal to eliminate the ADIT items for Pension Expense, the
9 Restricted Stock Program and the MIP/VPP accrual. The Company also agrees with
10 Mr. Dittmore's proposal to synchronize the Tennessee ADIT calculation with the
11 Tennessee specific excise tax rate², although the Company believes it is appropriate
12 to do so on a prospective basis, rather than as an adjustment in this filing as Mr.
13 Dittmore has proposed.

14 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS IN MR.**
15 **DITTEMORE'S TESTIMONY WITH WHICH YOU DISAGREE.**

16 A. Mr. Dittmore has included the ADIT item for the Directors Stock plan in his total
17 proposed adjustment to requested ADIT on page 5 of his testimony. Unlike the
18 ADIT items the Company has agreed to eliminate, the Directors Stock plan is not
19 incentive compensation, nor is an adjustment made to remove the underlying costs
20 from operation and maintenance expense. Directors are given the option to convert
21 their compensation to Company stock. The number of shares issued to each

¹ Docket No. 18-00097, Direct Testimony of Mr. David Dittmore at page5 Table lines 1-4 and 6

² Docket No. 18-00097, Direct Testimony of Mr. David Dittmore at pages 6 line 14 through page 9 line 9

1 Director is not tied to Company performance measures, such as EPS. Therefore, the
2 Directors Stock plan is not incentive compensation. For this reason and because the
3 underlying cost of this compensation are included in operation and maintenance
4 expense, this ADIT item is properly included in the Company's requested ADIT.
5 In addition, Mr. Dittemore has proposed to adjust ADIT in this filing to reflect the
6 Tennessee specific excise tax rate of 6.5%, rather than the blended state tax rate
7 used to record ADIT on the Company's books. While the Company agrees that this
8 treatment is appropriate on a prospective basis, it would be inappropriate to adjust
9 actual results in an Annual Reconciliation filing.

10 **IV. SYNCHRONIZATION OF ADIT COMPONENTS**

11 **Q. WHAT COMPONENTS OF THE ADIT BALANCE DOES THE COMPANY**
12 **AGREE TO REMOVE IN ORDER TO SYNCHRONIZE THE ADIT**
13 **BALANCE WITH O&M ITEMS INCLUDED IN THE REVENUE**
14 **REQUIREMENT?**

15 A. The Company agrees to remove ADIT items related to pension and incentive
16 compensation.

17 **Q. DOES THIS DIFFER FROM MR. DITTEMORE'S PROPOSAL?**

18 A. Yes. In addition to the items mentioned above, Mr. Dittemore has included a
19 deferred tax asset of \$236,225³ related to Directors Stock in his proposed
20 adjustment to ADIT. As I have described, costs for the Directors Stock plan are
21 included in operation and maintenance expense and do not relate to incentive

³ Docket No. 18-00097, Direct Testimony of Mr. David Dittemore at page5 Table line 5

1 compensation. Therefore, this ADIT item is properly included in the Company's
2 requested rate base.

3 **V. SYNCHRONIZATION OF TENNESSEE ADIT CALCULATION WITH**
4 **TENNESSEE SPECIFIC EXCISE TAX RATE**

5 **Q. PLEASE SUMMARIZE MR. DITTEMORE'S TESTIMONY SUPPORTING**
6 **HIS PROPOSAL TO SYNCHRONIZE THE CALCULATION OF ADIT IN**
7 **THE FILING WITH INCOME TAX EXPENSE.**

8 A. Mr. Dittemore has proposed that the Company should calculate Tennessee ADIT
9 using the statutory excise tax rate that is used to calculate Income Tax Expense in
10 the filing, rather than including the deferred taxes recorded on the Company's
11 books for the period ending May 31, 2018. Mr. Dittemore points out that the
12 Company records deferred taxes to Atmos Tennessee using a blended state tax rate
13 of 2.3%, which is a weighted average state tax rate for the Company's distribution
14 operations⁴. Mr. Dittemore has attempted to recalculate ADIT using the Tennessee
15 statutory excise tax rate of 6.5% to arrive at his proposed adjustment of \$8.6 million
16 (Rate Base Adj. #2) on Exhibit DND-3.

17 **Q. DO YOU AGREE WITH MR. DITTEMORE'S ASSERTION THAT**
18 **CONSISTENCY SHOULD BE MAINTAINED BETWEEN THE TAX RATE**
19 **USED IN THE COMPUTATION OF INCOME TAX EXPENSE AND ADIT?**

20 A. Yes. I agree that the most appropriate way to reflect the cost-free loan afforded the
21 Company by favorable accelerated tax deductions (both federal and state) is to

⁴ Docket No. 18-00097, Direct Testimony of Mr. David Dittemore at page 7 lines 3-11

1 calculate Income Tax Expense and ADIT with synchronized rates. I agree with Mr.
2 Dittemore's recommendation that the Company include both Income Tax Expense
3 and the ADIT balance using the statutory federal and Tennessee tax rates in
4 prospective filings.

5 **Q. DO YOU AGREE WITH MR. DITTEMORE'S PROPOSED ADJUSTMENT**
6 **IN THIS DOCKET?**

7 A. No. I do not.

8 **Q. WHY NOT?**

9 A. The Annual Reconciliation Revenue Requirement ("ARRR") model is a
10 component of the Annual Review Mechanism ("ARM") in which the Company
11 reconciles actual results to the authorized return on equity for the Forward Looking
12 Test Year immediately completed. ADIT included in rate base on Schedule 7 and
13 supporting workpapers of the model reflects the amounts recorded on the
14 Company's books. The Company has appropriately included actual results as
15 recorded on the Company's books and records in this reconciliation filing. It would
16 be inappropriate to make a retroactive adjustment to actual results. Going forward,
17 the Company has changed its practice for recording Tennessee deferred taxes on its
18 books to reflect state deferred taxes at the statutory Tennessee excise tax rate of
19 6.5%, consistent with Mr. Dittemore's proposal. The Company proposes to
20 incorporate this change into future ARM filings.

1 **Q. WHEN DID THE COMPANY CHANGE ITS METHODOLOGY FOR**
2 **RECORDING ADIT ON ITS BOOKS TO REFLECT THE TENNESSEE**
3 **STATUTORY EXCISE TAX RATE OF 6.5%?**

4 **A. In December, 2018 the Company remeasured and recorded Tennessee state deferred**
5 **taxes using the state statutory excise tax rate of 6.5%.**

6 **Q. DID THE COMPANY INCORPORATE THIS CHANGE INTO ITS MOST**
7 **RECENT FORWARD LOOKING ARM FILING?**

8 **A. No. This change has not yet been incorporated.**

9 **Q. WHY NOT?**

10 **A. The base period for the Company's most recent ARM filing is the 12-month period**
11 **ending September 30, 2018. The Company's per-book balances had not yet been**
12 **remeasured to reflect deferred taxes using the Tennessee statutory rate, since this**
13 **change was made in December 2018 books.**

14 **VI. CALCULATION ERRORS**

15 **Q. DID YOU REVIEW MR. DITTEMORE'S CALCULATION SUPPORTING**
16 **HIS PROPOSED ADJUSTMENT OF \$8.7 MILLION TO ADIT?**

17 **A. Yes.**

18 **Q. DO YOU AGREE WITH HIS CALCULATION?**

19 **A. No.**

20 **Q. WHY NOT?**

21 **A. Mr. Dittmore's calculations are based on two incorrect assumptions that result in**
22 **an overstatement to his proposed adjustment.**

1 The first assumption Mr. Dittmore makes in error is that all Atmos
2 Tennessee ADIT balances recorded on the general ledger at May 2018 and prior
3 were recorded using a blended state deferred tax rate. This is not the case. Certain
4 ADIT items were recorded using the state statutory excise tax rate. Therefore, it is
5 not possible to calculate the adjustment to ADIT, as Mr. Dittmore has done, by
6 grossing up the per-books balances by the blended per-books deferred tax rate and
7 then tax effecting by a combined federal and state statutory rate. Since certain
8 deferred tax assets, specifically the ADIT items for state NOLs and the state bonus
9 depreciation adjustment, were already reflected on the Company's books using the
10 statutory excise tax rate, the adjustment would be lower than that which Mr.
11 Dittmore has proposed.

12 The second flaw is Mr. Dittmore's conclusion that the regulatory liability
13 for excess deferred income tax ("EDIT") would change as a result of reflecting
14 ADIT using the state statutory, rather than blended deferred tax rate. As part of the
15 overall proposed adjustment of \$8.7 million, Mr. Dittmore has calculated a \$1.8
16 million adjustment to EDIT. In fact, the remeasurement of deferred taxes for a
17 change in federal tax rate should render the same result no matter whether a blended
18 or statutory rate is being used for state purposes. While simplistic and easy to
19 follow, Mr. Dittmore's methodology for calculating this \$1.8 million adjustment
20 to ADIT includes two significant errors which render an incorrect result. First, as I
21 discussed previously, Mr. Dittmore fails to contemplate that certain ADIT items
22 have been recorded using the statutory excise tax rate. It is not possible to gross up
23 these per-books balances by the blended per-books pre-TCJA deferred tax rate and

1 the tax effect by a blended per-books post-TCJA deferred tax rate to derive excess
2 deferred taxes. Second, Mr. Dittmore fails to contemplate the difference in tax
3 gross-up for EDIT derived from deferred taxes recorded at statutory rates. The
4 regulatory liability for EDIT includes a tax gross-up. When comparing EDIT
5 calculated using statutory versus blended deferred tax rates, any decrease in the
6 underlying regulatory liability is offset equally with an increase in the tax gross-up
7 amount. The tax gross-up amount for EDIT is higher when the balance of ADIT is
8 calculated using the higher statutory excise tax rate of 6.5% instead of the blended
9 state rate of 2.3%.

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

11 **A. Yes.**

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

IN RE:

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

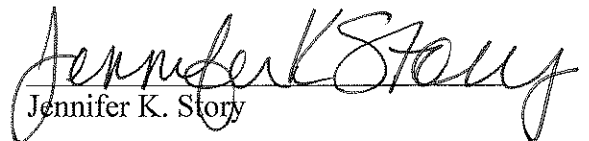
Docket No. 18-00097

VERIFICATION

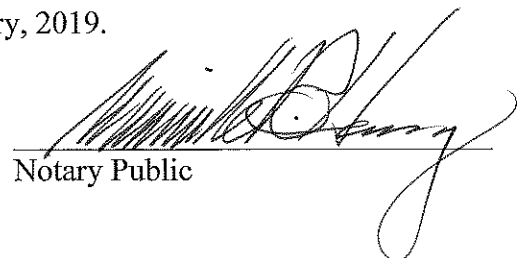
STATE OF TEXAS)

COUNTY OF DALLAS)

I, Jennifer K. Story, being first duly sworn, state that I am Director Regulatory Reporting for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Rebuttal 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 5th day of February, 2019.


Notary Public

My Commission Expires: 9/1/2020

