

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

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IN RE:

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

JOINT PETITION TO APPROVE STIPULATION AND SETTLEMENT AGREEMENT

The Parties jointly request approval of the Stipulation and Settlement Agreement (Settlement Agreement) filed in the above-referenced Docket and in Docket No. 18-00034 on March 25, 2019. The Settlement Agreement is incorporated in its entirety by reference herein. While the Parties request approval as written of all provisions of the entire Settlement Agreement in both dockets, for ease of reference, and at the request of the Hearing Officer, the Parties submit the following excerpted provisions from the Settlement Agreement. Subject to all of the terms and conditions of the Settlement Agreement, including provisions not reproduced below, the Settlement Agreement includes the following resolution of issues in this Docket 18-00097 (as excerpted from the Settlement Agreement):

Reduction in Federal Income Tax Rate

16.¹ The issue in this subsection concerning the reduction in federal income tax rates under the TCJA was raised in both TPUC Docket Nos. 18-00034 and 18-00097.

¹ For ease of reference, paragraph numbering from the Settlement Agreement has been maintained. Footnote numbering from the Settlement Agreement has not been maintained. Footnote number 1 was not in the original text.

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17. The Parties agree that the recommendation set out in Consumer Advocate witness Novak's Direct Testimony in the ARM Reconciliation Docket for a pro forma blended federal tax rate that reflects a systematic adjustment from the pre-2018 tax rate to the current rate is the correct tax rate for purposes of the ARM Reconciliation Docket.² Mr. Novak's recommendation was to agree with and accept the Company's proposed tax rate calculation.³ Specifically, the Parties agree, and recommend that the Commission approve, a blended rate of 29.26%. Further, such blended rate shall be used in the ARM Reconciliation Docket to take into account the income tax savings from the TCJA's reduction of the federal corporate tax rate from 35% to 21%.

18. For TPUC Docket No. 18-00034, the Parties agree that going forward Atmos Energy's annual review mechanism (ARM) as established in TPUC Docket No. 14-00146 provides the mechanism to address the Income Tax Savings from the TCJA's reduction of the federal corporate tax rate from 35% to 21%.

Correction of Tax Rates for Calculating Allowance for Funds Used During Construction (AFUDC)

19. The issue in this subsection concerning the correction of tax rates for calculating AFUDC was raised in TPUC Docket No. 18-00097.

20. The Parties agree that the recommendation set out in Consumer Advocate witness Novak's Direct Testimony in the ARM Reconciliation Docket that the methodology used by Atmos Energy for calculating AFUDC be used along with the tax rates of 6.5% for state and 29.26% for federal should be adopted by the

² Novak Direct Testimony, TPUC Docket No. 18-00097, pg. 4, lines 19-21.

³ *Id.*

Commission.⁴

Calculation of Gross-Up Factors

21. The issue in this subsection concerning the calculation of gross-up factors was raised in TPUC Docket No. 18-00097.

22. As reflected in the Consumer Advocate witness Novak's Direct Testimony, Table 5,⁵ two ratios – or gross-up factors – are used to convert any operating margin deficiency or surplus approved by the Commission into operating revenues.⁶ Those two factors are the Forfeited Discount factor and the Uncollectible Expense factor. The Parties agree that the recommendation of Consumer Advocate witness Novak to use Operating Revenue in those calculations, as reflected on Table 5 of Mr. Novak's testimony, is the correct methodology for the calculation of those respective factors. Thus, the Parties agree for purposes of the ARM Reconciliation Docket, that a forfeited discount ratio of 0.005167 and an uncollectible expense ratio of 0.001731.⁷

23. The Parties agree, however, that the Company has not waived its right to challenge such methodology in future dockets. The resolution of this issue has no precedential impact on positions that any Party may take regarding this issue in an existing or future Atmos Energy docket.

Long-Term Debt and Stockholder's Equity to Compute Capital Structure

24. The issue in this subsection concerning the calculation of capital structure was raised in TPUC Docket No. 18-00097.

⁴ Novak Direct Testimony at pg. 18, line 9, Table 6.

⁵ Novak Direct Testimony at pg. 15, Table 5.

⁶ Novak Direct Testimony at pg. 16, lines 8-14.

⁷ Novak Direct Testimony at pg. 15, line 11, Table 5.

25. The Parties agree, for the purpose of resolving this issue in the ARM Reconciliation Docket, with the recommendation set out in the rebuttal testimony of Company witness Mr. Greg Waller that end-of-period balances be used for long term debt and shareholders' equity in the computation of capital structure.

26. The Parties agree, however, that the Consumer Advocate has not waived its right to challenge such methodology in future dockets. The resolution of this issue has no precedential impact on positions that any Party may take regarding this issue in an existing or future Atmos Energy docket.

Annualizing Versus Actual Expenses for Long Term Debt

27. The issue in this subsection concerning the calculation of the long term debt rate was raised in TPUC Docket No. 18-00097.

28. The Parties agree, for the purpose of resolving this issue in the ARM Reconciliation Docket, with the recommendation set out in the rebuttal testimony of Company witness Mr. Greg Waller that certain debt cost expenses should be annualized in the calculation of the long term debt rate.

29. The Parties agree, however, that the Consumer Advocate has not waived its right to challenge such methodology in future dockets. The resolution of this issue has no precedential impact on positions that any Party may take regarding this issue in an existing or future Atmos Energy docket.

Synchronization of Accumulated Deferred Income Tax (ADIT)

30. The issue in this subsection concerning the synchronization of ADIT was raised in both TPUC Docket Nos. 18-00034 and 18-00097.

31. The Parties agree that in order to properly synchronize certain operating and maintenance (O&M) costs for ratemaking certain adjustments must be made to Atmos Energy's ADIT balance. The Parties agree that the recommendation of Consumer Advocate witness Dittmore to remove certain amounts (Pension Expense, Restricted Stock Program, Restricted Stock – MIP, MIP/VPP Accrual) from the Atmos Energy's ADIT accounts (with the exception of certain Directors Stock Award amounts) for ratemaking purposes is the correct methodology. Thus, the Parties agree to the adjustments described in the table below.⁸

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/
6	To Remove MIP/VPP Accrual /C	(28,606) B/
7	Total Adjustments	(134,123)
8	Adjusted Total	(41,560,884)

A/ Attrition Period Trial Balance 5.31.18.xlsx from TPUC Docket No. 18-00097

B/ ADIT 06-30-18.xlsx from TPUC Docket No. 18-00097

C/ Management Incentive Plan/Variable Pay Plan from TPUC Docket No. 18-00097

The Parties agree that the appropriate modification to the Atmos Energy proposed ADIT balance associated with synchronizing components of the ADIT with their corresponding treatment within Operating and Maintenance costs reduces the

⁸ The original table is set out in Dittmore Direct Testimony, pg. 5, TPUC Docket No. 18-00097 (January 9, 2019). The table in this Settlement Agreement has been revised with the removal of "line 5" which is the Director's Stock Award as described in Story Rebuttal Testimony, pg. 4, line 14, through pg. 5, line 9 and fn. 3, TPUC Docket No. 18-00097 (February 6, 2019).

ADIT balance \$134,123.

**Synchronization of ADIT Calculation with a
Tennessee Specific Excise Tax Rate**

32. The issue in this subsection concerning synchronization of ADIT with a Tennessee specific excise tax rate was raised in TPUC Docket No. 18-00097.

33. Atmos Energy's proposed ADIT balance is comprised of a number of individual book/tax timing differences multiplied by federal and state tax rates. The Parties agree to use the Tennessee specific excise tax rate for both income tax expense and ADIT. More specifically, the Parties agree that Atmos Energy shall calculate the Tennessee ADIT using the Tennessee State Excise Tax Rate in its Income Tax Expense and within its Division 93 (TN) ADIT balances.

34. The result of this modification is an increase in the 13-month average balance of ADIT of \$6,953,884 and reduction to Atmos Energy's rate base of \$6,955,572.⁹ The difference between these amounts and the \$8.7 million adjustment proposed by the Consumer Advocate reflects corrections to this amount as identified in the rebuttal testimony of Ms. Story. Specifically, the use of the Tennessee state rate is applied to only those book/tax timing differences in which a rate other than the Tennessee state tax rate was previously used.

35. In addition to the adjustment discussed above, the stipulated adjustment reflects a correction to the Regulatory Liability balance for the impact of Excess ADIT using the Tennessee rate rather than a composite system average tax rate. The adjustment of \$68,802 is applied to the months of December 2017 -

⁹ The difference in ADIT balance and rate base adjustment is due to the impact of the ADIT adjustment on cash working capital.

May 2018 resulting in an adjustment to the thirteen-month average balance of \$31,755.

36. The Rate Base as set forth in the Settlement Agreement (settlement Rate Base) is reconciled with the Company's original Rate Base¹⁰ as set forth in Exhibit A. This settlement Rate Base also incorporates changes to the balance of Cash Working Capital consistent with other Rate Base adjustments. The original balance of ADIT¹¹ is reconciled with the settlement balance of ADIT as set forth in Exhibit B. The original balance of Cash Working Capital¹² is reconciled with the settlement balance of Cash Working Capital as set forth in Exhibit C. The original balance of the Atmos Regulatory Liability is reconciled with the settlement balance of the Atmos Regulatory Liability as set forth in Exhibit D.¹³ The original balance of Accumulated Depreciation and Amortization¹⁴ is reconciled with the settlement balance of Accumulated Depreciation and Amortization as set forth in Exhibit E. The original balance of Storage and Gas Investment¹⁵ is reconciled with the settlement balance of Storage and Gas Investment as set forth in Exhibit F.

Revenue Requirement Surplus

55. The issue in this subsection concerning revenue requirement was raised in TPUC Docket No. 18-00097.

56. As reflected in Settlement Agreement Schedules 1-12, the Parties agree that the resulting revenue surplus in the ARM Reconciliation Docket is

¹⁰ Waller Direct Testimony, Exhibit GKW-1, Schedule 7, line 29.

¹¹ Waller Direct Testimony, Exhibit GKW-1, Schedule 7, line 15.

¹² *Id.* at Schedule 7, line 9.

¹³ *Id.* at Schedule 7, line 13.

¹⁴ *Id.* at Schedule 7, line 3.

¹⁵ *Id.* at Schedule 7, line 7.

\$4,053,984 (including carrying costs) which shall be the amount that will be incorporated into the Atmos Energy ARM filing, TPUC Docket No. 19-00018, currently pending before the Commission.

Safety and Operating Performance Metrics

57. The issue in this subsection concerning safety and operating performance metrics was raised in TPUC Docket No. 18-00097.

58. The Parties agree that Mr. Dittmore's proposals for safety and operating performance metrics, as set out in his testimony, will be raised for consideration by the Commission in the existing TPUC Docket No. 18-00112.

The above provisions, excerpted from the Settlement Agreement, are subject to all of the terms and conditions of the Settlement Agreement, including those not reproduced herein.

Based upon the entirety of the record, the Parties respectfully request approval of the Settlement Agreement in this Docket No. 18-00097 and in Docket No. 18-00034.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served, via the method(s) indicated below, on the following counsel of record, this the 4th day of April, 2019.

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