

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION  
NASHVILLE, TENNESSEE

IN RE: )  
)  
DOCKET TO INVESTIGATE AND )  
CONSIDER MODIFICATIONS TO ) Docket No. 18-00112  
ATMOS ENERGY CORPORATIONS' )  
ANNUAL RATE REVIEW )  
MECHANISM (ARM) UNDER TENN. )  
CODE ANN. § 65-5-103(6) )

PRE-FILED TESTIMONY OF GREGORY K. WALLER  
IN SUPPORT OF SETTLEMENT AGREEMENT  
ON BEHALF OF ATMOS ENERGY CORPORATION

1 I. INTRODUCTION OF WITNESS

2 Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

3 A. My name is Gregory K. Waller. I am Manager, Rates and Regulatory Affairs with  
4 Atmos Energy Corporation (“Atmos Energy” or “Company”). My business address  
5 is 5420 LBJ Freeway, Ste. 1600, Dallas, Texas 75240.

6 Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL  
7 BACKGROUND.

8 A. I received a Bachelor of Arts degree in economics from Dartmouth College in 1994  
9 and an MBA degree from the University of Texas in 2000. I worked as a  
10 management consultant from 1994 to 2003 at Harbor Research in Boston, MA (1994-  
11 1996) and Towers Perrin in Dallas, TX (1997-2003). I joined Atmos Energy in 2003  
12 in the Planning and Budgeting Department in Dallas. In November of 2005 I became  
13 Vice President of Finance for the Kentucky/Mid-States Division, which includes the

1 Company's regulated Tennessee operations. I assumed my current role in Dallas, TX  
2 in July 2012.

3 **Q. WHAT ARE YOUR RESPONSIBILITIES AT ATMOS ENERGY?**

4 A. I am responsible for managing rate proceedings filed primarily with state regulatory  
5 bodies on behalf of the Company. My responsibilities include execution of  
6 applications for changes to rates and tariffs as part of traditional rate cases, tariff  
7 language change proposals, and annual rate making mechanisms that the Company  
8 files in the eight states in which it has regulated operations.

9 **Q. HAVE YOU TESTIFIED BEFORE THIS OR ANY OTHER REGULATORY**  
10 **COMMISSION?**

11 A. Yes. I testified before the Tennessee Public Utility Commission and its predecessor  
12 the Tennessee Regulatory Authority ("Commission") in Docket Nos. 05-00258, 16-  
13 00105 and 17-00091. I also submitted testimony in Docket Nos. 07-00105, 08-  
14 00197, 12-00064, 14-00081, 14-00146, 17-00012, 17-00091, 18-00067, 18-00097,  
15 and 19-00018. I testified before the Kentucky Public Service Commission in 2014,  
16 2017 and 2019, and the Georgia Public Service Commission in 2008, 2009 and 2011.  
17 I submitted direct testimony in the Company's rate proceedings in Kentucky (2006,  
18 2009, 2013, 2015 and 2018) and Virginia (2008, 2013, 2014, 2016 and 2018).

19 **II. PURPOSE OF TESTIMONY AND SUMMARY OF THE SETTLEMENT**

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

21 A. The purpose of my testimony is to support the Settlement Agreement in this  
22 proceeding by which Atmos Energy, the Consumer Advocate Unit in the Financial  
23 Division of the Office of the Attorney General ("Consumer Advocate"), and

1 Commission Party Staff (collectively, “Parties”) have agreed to modifications to the  
2 Company’s Annual Rate Review Mechanism (“ARM”).

3 **Q. DO YOU HAVE ANY EXHIBITS ATTACHED TO YOUR TESTIMONY?**

4 A. No.

5 **Q. PLEASE DESCRIBE THE IMPETUS FOR THIS PROCEEDING?**

6 A. In Docket No. 18-00067, the Hearing Examiner posed three questions to Atmos  
7 Energy and the Consumer Advocate that ultimately resulted in the creation of this  
8 Docket.<sup>1</sup> Those three questions were, generally: (1) Whether the ARM can be  
9 modified to eliminate the forward looking test year and associated annual rate  
10 adjustment; (2) Whether the provision for interest at the rate of the overall cost of  
11 capital compounded for two years to be added to the annual reconciliation revenue  
12 requirement (whether positive or negative) should be modified if the forward looking  
13 test year filing requirement and associated annual rate adjustment based on the  
14 forward looking test year filing are eliminated; and (3) Whether any other  
15 modifications to the ARM should be made to provide that the Company earns its  
16 authorized rate of return? While the questions were addressed by the parties in  
17 testimony in Docket No. 18-00067, the complex issues posed by and arising from  
18 those questions and responses led the Commission to open this docket to further  
19 investigate potential solutions allowing an ARM with a single annual filing.

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<sup>1</sup> See *In Re: Petition of Atmos Energy Corporation For Approval of Its 2018 Annual Rate Review Filing Pursuant to Tenn. Code Ann. §65-5-103(d)(6)*, Docket 18-00067, *Order Approving 2018 Annual Rate Review Filing*, pp. 7-9, (December 4, 2018).

1   **Q.    HOW DID THE PARTIES CONDUCT THEIR EFFORTS AND ARRIVE AT A**  
2       **SETTLEMENT IN THIS DOCKET?**

3    A.    The Parties proposed and the Hearing Examiner allowed the Parties to work  
4           informally on possible solutions prior to submission of a formal procedural schedule.  
5           The Parties worked together through a series of five face to face working sessions  
6           and multiple informal phone conferences during which multiple possible solution  
7           frameworks were proposed and discussed.  Following each session, the Company  
8           incorporated the relevant feedback as it prepared for the next session.  The  
9           progression resulted in a narrowing of the issues over the course of several months,  
10          culminating in the final Stipulation and Settlement Agreement filed in this docket.

11   **Q.    WHAT ARE THE KEY PROVISIONS OF THE STIPULATION AND**  
12       **SETTLEMENT AGREEMENT?**

13   A.    Through extensive settlement negotiations, the Parties were able to agree to  
14          modifications to the Company's ARM that address the original questions posed by  
15          the Hearing Examiner, allow for the elimination of the forward looking test year, and  
16          instead provide for a single annual filing.  The resulting ARM tariff, as supported by  
17          the Stipulation and Settlement Agreement to which it is attached, includes the  
18          following design characteristics:

- 19          •       Eliminates the current two-filing-per-year mechanism in favor of a single  
20                  filing each year;
- 21          •       Aligns the historic test year upon which cost of service is based with the  
22                  Company's fiscal year;
- 23          •       Maintains the jurisdiction's long standing precedent of eliminating regulatory  
24                  lag by utilizing deferred accounting treatment for costs associated with new  
25                  investment, in lieu of a forward looking test year;
- 26          •       Maintains the provision for reconciling the Company's results to its  
27                  authorized Return on Equity ("ROE");

- Maintains the Approved Methodologies, as originally adopted in Docket No. 14-00146 (and subsequently modified in dockets filed pursuant to the ARM), except as necessary to implement these new provisions; and
- Provides necessary provisions for transitioning from the current ARM tariff.

**Q. WHAT IMPACT WILL THESE CHANGES HAVE UPON THE COMPANY'S CUSTOMERS?**

A. I believe that the Parties have carefully considered how to transition the existing ARM to a more streamlined ARM with fewer annual filings in a manner that has no material impact on customers. While the actual rates in effect at any given future time period will be slightly different because of the changes in the Settlement Agreement, if the modifications are accepted as proposed, the Company's overall rate of return and cost of service will be not be materially affected.

### **III. CONTENTS OF SETTLEMENT AGREEMENT**

**Q. HOW WILL THE MODIFIED ARM OPERATE?**

A. The Company's ARM will move to a single annual filing, to be made on or before February 1 each year. This annual filing will serve two main functions: (1) Determine an annual reconciliation revenue requirement by comparing actual cost of service excluding gas cost from the historic test period just completed with actual adjusted gross margin from the same period; and (2) Determine the Company's revenue requirement and the rates necessary to allow the Company to earn its authorized return on equity for the same historic test period. The historic test period will be the Company's most recently completed fiscal year. The Company's tariff rates for the upcoming rate effective year will be established to enable the Company

1 to earn its revenue requirement and authorized return on equity for the historic test  
2 period. The rate effective year will begin on June 1 of each year.

3 **Q. WILL CHANGES TO CURRENT ARM PRACTICES BE NEEDED TO**  
4 **TRANSITION TO THE NEW SINGLE ANNUAL ARM FILING?**

5 A. Yes. As more fully described in Section 9 of the Settlement Agreement, the Company  
6 will establish and include in rate base a regulatory asset to record interest deferrals,  
7 depreciation expense deferrals, and ad valorem expense deferrals associated with  
8 plant in-service which has been placed in service subsequent to the previous historic  
9 test period and has not otherwise been included in rate base. The balance of this  
10 regulatory asset at the end of the historic test period will be included in plant and rate  
11 base. Additionally, as stated in Section 10 of the Settlement Agreement, for the  
12 purpose of calculating the gross up factor on WP 8-2, total revenues will be used in  
13 the denominator of the “Forfeited Discounts” component and actual gross margin  
14 will be used in the denominator of the “Uncollectible Ratio” component. Also, there  
15 will be associated modifications and elimination of some of the schedules and other  
16 relied-upon files currently included in the Company’s two annual ARM filings. These  
17 changes are described in Section 11 of the Settlement Agreement. Lastly, in order to  
18 transition to the new single annual ARM filing, certain filings and tariff changes will  
19 be necessary as described in Section 12 of the Settlement Agreement.

1                   **IV.   TRANSITIONING TO A SINGLE ANNUAL ARM FILING**

2   **Q.   PLEASE ELABORATE ON THE PROCESS OF TRANSITIONING TO THE**  
3   **SINGLE ANNUAL ARM FILING.**

4   A.   Atmos Energy has already filed its annual reconciliation for the test year of June 1,  
5       2018 through May 31, 2019 under the currently effective ARM process. The Parties  
6       agree that this reconciliation should proceed and determine the annual reconciliation  
7       revenue requirement under the existing ARM process as currently described in the  
8       Company's Tariff, except as modified by certain transitional provisions of the  
9       Settlement Agreement in this Docket. This reconciliation will establish the rates that  
10      become effective on June 1, 2020 without an intervening February 1 ARM filing. The  
11      modified ARM Tariff will become effective on June 1, 2020.<sup>2</sup> With the effectiveness  
12      of the modified ARM Tariff, the Company will begin deferrals to the new regulatory  
13      asset described in Section 9 of the Settlement Agreement. The Company will not  
14      make an annual reconciliation filing on September 1, 2020, and instead will make its  
15      first annual ARM filing under the modified ARM on February 1, 2021, which will  
16      result in rates effective on June 1, 2021.

17                   **V.   CONCLUSION**

18   **Q.   WHAT ARE YOU ASKING THE COMMISSION TO DO IN THIS**  
19   **PROCEEDING?**

20   A.   I respectfully request that the Commission approve the Settlement Agreement as  
21       agreed to by the Parties and filed in this docket on October 2, 2019.

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<sup>2</sup> The modified ARM Tariff is attached to the Settlement Agreement as Exhibit A.

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

2    **A.     Yes.**



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Docket No. 18-00112

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VERIFICATION

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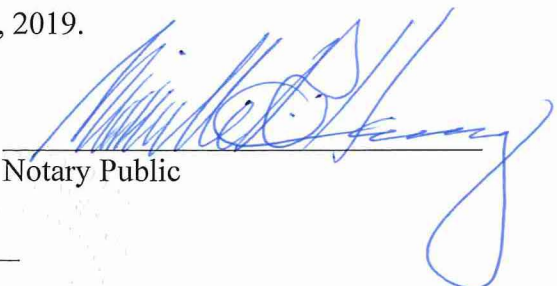
STATE OF TEXAS )

COUNTY OF DALLAS )

I, Gregory K. Waller, being first duly sworn, state that I am the Manager of Rates and Regulatory Affairs for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Direct Testimony of Gregory K. Waller in support of Atmos Energy Corporation's filing is true and correct to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
Gregory K. Waller

Sworn and subscribed before me this 2<sup>nd</sup> day of October, 2019.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: 9/1/2020

