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BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY CORPORATION	)
FOR APPROVAL OF ITS 2019 ANNUAL RATE	) **DOCKET NO. 19-XXXXX**
REVIEW FILING PURSUANT TO TENN.	)
CODE ANN. § 65-5-103(d)(6)	)

PRE-FILED TESTIMONY OF GREGORY K. WALLER ON BEHALF OF ATMOS ENERGY CORPORATION

I. INTRODUCTION OF WITNESS

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

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

Q. **PLEASE STATE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.**

A. I received a Bachelor of Arts degree in economics from Dartmouth College in 1994 and an MBA degree from the University of Texas in 2000. I worked as a management consultant from 1994 to 2003, at Harbor Research in Boston, MA (1994-1996) and at Towers Perrin in Dallas, TX (1997-2003). I joined Atmos Energy in 2003 in the Planning and Budgeting Department in Dallas. In November of 2005 I became Vice President of Finance for the Kentucky/Mid-States Division, which includes the Company's regulated Tennessee operations. I assumed my current role in Dallas, TX in July 2012.

Q. WHAT ARE YOUR RESPONSIBILITIES AT ATMOS ENERGY?

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

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

A. Yes. I testified before the Tennessee Public Utility Commission ("Commission") in Docket Nos. 05-00258, 16-00105, 17-00012, 17-00091 and 18-00067. I also submitted testimony in Docket Nos. 07-00105, 08-00197, 12-00064, 14-00081, 14-00146, 16-00013 and 18-00097. I testified before the Kentucky Public Service Commission in 2014 and 2018, and the Georgia Public Service Commission in 2008, 2009 and 2011. I submitted direct testimony in the Company's rate proceedings in Kentucky (2006, 2009, 2013, 2015, 2017 and 2018) and Virginia (2008, 2013, 2014, 2016 and 2018).

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to calculate the Company's Annual Revenue Requirement for the Forward Looking Test Year that ends May 31, 2020, as prescribed in Section IV of the Company's Annual Review Mechanism ("ARM") tariff. The resulting revenue requirement is the amount of additional revenue or reduction in rates required for the Company to earn its authorized return on equity for the Forward Looking Test Year ending May 31, 2020, in accordance with the approved methodologies ("Approved Methodologies") as defined in the Company's approved ARM tariff.[1]

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

A. No. While I have no exhibits attached directly to my testimony, I am sponsoring the revenue requirement schedules, relied-upon files, and other contents of the Company's ARM Filing required by Section IV of the ARM tariff.

Q. WERE THE CONTENTS OF THE ARM FILING PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. WHAT CALCULATIONS HAVE YOU PERFORMED FOR YOUR TESTIMONY IN THIS PROCEEDING?

A. I have calculated the Company's projected cost of service, or revenue requirement, for the Test Year ended May 31, 2020, that is needed for the Company to earn its authorized return on equity. The results and supporting calculations are shown in the Revenue Requirement Model, Schedules 1-11. All of the calculations were made in accordance with the Approved Methodologies.

Q. PLEASE SUMMARIZE YOUR RESULTS.

A. The Company's total cost of service for the Test Year ended May 31, 2020 is $156,319,367. The Company's projected revenue at present rates is $151,201,596, resulting in a revenue deficiency for the Forward Looking Test Year ending May 31,

[1] *See also In re: Petition of Atmos Energy Corporation for a General Rate Increase Under T.C.A 65-5-103(a) and Adoption of an Annual Rate Review Mechanism Under T.C.A. 65-5-103(d)(6)*, Docket No. 14-00146, *Order Approving Settlement*, p. 10 (November 4, 2015).

2020 of $5,117,771. In addition to that deficiency, I have added the Annual Reconciliation Revenue Requirement sufficiency of $3,219,825 that was filed by the Company in Docket No. 18-00097. That Docket is still pending and currently scheduled for hearing on March 11, 2019. I have also included an expense credit of $1,036,590 for the amortization of excess deferred income tax. The resulting total revenue deficiency is $861,355. I have included in the ARM filing proposed tariffs with proposed rates that produce that amount of revenue and that were calculated using the Approved Methodologies.

III. HISTORY AND PURPOSE OF THE ANNUAL REVIEW MECHANISM

Q. PLEASE EXPLAIN THE PURPOSE OF THE COMPANY'S ANNUAL REVIEW MECHANISM.

A. The ARM is designed to provide the Company a reasonable and timely means of recovering its cost of service for each projected Forward Looking Test Year. The ARM is a comprehensive mechanism that includes all components of cost of service. This includes, among other things, capital investment and depreciation expense, O&M expenses, and revenues as detailed in the Revenue Requirement Model. The ARM, created pursuant to Tennessee Code Annotated Section 65-5-103(d)(6), is a reasonable and effective solution that allows the Company timely recovery of its cost of service while avoiding costly and litigious general rate cases. An Annual Reconciliation ensures that the Company does not earn in excess of its authorized return on equity while simultaneously ensuring that the Company is not financially injured as it invests the capital necessary to continue to provide safe and reliable service to its Tennessee customers. In approving the ARM in November 2015, the Commission found the mechanism to be in the public interest.[2]

Q. WHEN AND HOW WAS THE ANNUAL REVIEW MECHANISM APPROVED BY THE COMMISSION?

A. The ARM was initially approved by the Commission in Docket No. 14-00146 by Order issued on November 4, 2015.[3]

Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE ANNUAL REVIEW MECHANISM AND HOW IT WORKS.

A. Under the ARM, as set forth in the Company's Tariff Sheets 34.1 through 34.7 and the schedules thereto, the Company calculates an annual revenue requirement for its Tennessee jurisdiction for each Forward Looking Test Year and then allocates that revenue requirement across the Company's customer classes using Approved Methodologies established in the Company's most recent rate case. Through the annual ARM filing, which is filed no later than February 1 of each year, the Company updates both the customer and volumetric charges of its base rates in accordance with the Approved Methodologies to reflect the forecasted revenue requirement. In addition to the ARM filing each February 1, the Company also files an Annual Reconciliation on or before September 1 of each year which provides a reconciliation of actual results to the authorized return on equity for the Test Year immediately completed. The resulting revenue requirement from the Annual Reconciliation is then incorporated into the Company's subsequent February 1 ARM

[2] *Id.* at 9.

[3] *Id.*

filing. This filing incorporates the Annual Reconciliation filed by the Company in Docket No. 18-00097 which is still pending.

IV. REVENUE REQUIREMENT MODEL SCHEDULES

Q. PLEASE LIST THE SCHEDULES THAT COMPRISE THE COMPANY'S REVENUE REQUIREMENT MODEL.

A. The Revenue Requirement Model is comprised of:

Schedule 1: Cost of Service

Schedule 2: Summary of Revenues at Present Rates

Schedule 3: Cost of Gas

Schedule 4: Operation and Maintenance Expenses

Schedule 5: Taxes Other than Income

Schedule 6: Depreciation and Amortization Expenses

Schedule 7: Rate Base and Return

Schedule 8: Computation of State Excise and Income Taxes

Schedule 9: Overall Cost of Capital

Schedule 10: Rate of Return

Schedule 11: Proof of Revenues and Calculation of Rates

These Schedules are included in each February 1 ARM filing per the approved ARM tariff. Pursuant to the ARM tariff, I have also included the schedules traditionally used by Commission Staff to illustrate that the Company's Revenue Requirement Model and Staff's model reconcile.

Q. PLEASE EXPLAIN SCHEDULE 1.

A. Schedule 1 summarizes the elements of the cost of service, including gas cost expense, O&M expense, depreciation expense, taxes other than income taxes, return on rate base, income tax, allowance for funds used during construction ("AFUDC") and interest on customer deposits. Schedule 1 forecasts cost of service for the Forward Looking Test Year from the Historic Base Period, as defined in the ARM Tariff, in order to calculate the revenue requirement that is the amount of additional revenue or reduction in rates required for the Company to earn its authorized rate of return. Schedule 1 sources data from each of the other schedules.

Q. PLEASE EXPLAIN SCHEDULES 2 AND 3.

A. Schedule 2 shows per book revenues for the Historic Base Period ended September 30, 2018 and the projected revenues for the Forward Looking Test Year. Schedule 3 shows the Historic Base Period per books gas cost and the projected Forward Looking Test Year cost of gas. The Forward Looking Test Year cost of gas is adjusted to remove rent for inter-company leased storage property that is booked to gas cost per the Approved Methodologies.

Q. PLEASE EXPLAIN SCHEDULE 4.

A. Schedule 4 shows the Historic Base Period per books O&M expense, and the forecasted Forward Looking Test Year O&M expense with adjustments made in accordance with the Approved Methodologies, including an adjustment to the Test Year O&M expense to include operating expenses for the Barnsley storage asset.

Q. PLEASE PROVIDE MORE DETAIL ON THE VARIANCE BETWEEN THE ACTUAL HISTORIC BASE PERIOD OPERATION AND MAINTENANCE EXPENSE COMPARED TO THE FORECASTED FORWARD LOOKING TEST YEAR AMOUNT.

A. The Company forecasted Forward Looking Test Year O&M expenses of $21,815,589 compared to Base Period O&M expenses of $21,528,183, resulting in an increase of $287,407. The forecasted O&M includes the removal of specified subaccounts, most notably related to the pension accrual and incentive compensation, per the Approved Methodologies. The disallowed items are itemized on WP 4-1. In addition to the forecasted amount, I adjusted O&M for operating expenses for intercompany leased property per the Approved Methodologies. The final O&M included in cost of service is $22,182,884.

Q. PLEASE EXPLAIN THE ADJUSTMENT IN O&M EXPENDITURES FOR PENSION CONTRIBUTION.

A. As required by the Approved Methodologies, the Company removed the budgeted accrual for FAS 87 expenses. In years when the Company makes actual cash contributions to its pension fund, the allocable amount will be included in the Annual Reconciliation Revenue Requirement as it was in Docket No. 17-00091 and utilizing the allocation methodology per the Approved Methodologies.

Q. DID YOU MAKE ANY ADJUSTMENTS FOR THE AMORTIZATION OF RATE CASE EXPENSE?

A. No. Actually-incurred rate case expenses for Docket No. 14-00146 were $260,222. The Company amortized that expense at $14,583.33 per month and the amortization was completed in November 2016. Therefore, no amounts are included in the Forward Looking Test Year of this filing.

Q. PLEASE EXPLAIN SCHEDULE 5.

A. Schedule 5 shows Historic Base Period per books taxes other than income taxes and forecasted Forward Looking Test Year taxes other than income taxes.

Q. PLEASE EXPLAIN THE VARIANCE BETWEEN HISTORIC BASE PERIOD PER BOOK TAXES OTHER THAN INCOME TAXES COMPARED TO THE AMOUNT FORECASTED BY THE COMPANY.

A. The Company forecasted $8,589,182 in Taxes Other Than Income Taxes during the Forward Looking Test Year, whereas the Historic Base Period amount was $7,542,119 for an overall increase of $1,047,063. The primary drivers of the difference are increases in Ad Valorem taxes at the Tennessee and Shared Services levels. In addition to the forecasted amount, I adjusted Other Taxes for intercompany leased property per the Approved Methodologies. The final Other Taxes included in cost of service is $8,645,628.

Q. PLEASE EXPLAIN SCHEDULE 6.

A. Schedule 6 shows the Historic Base Period per books depreciation and amortization expense, and the forecasted Forward Looking Test Year depreciation and amortization expense. I adjusted the forecasted Forward Looking Test Year depreciation expense to include expense for intercompany leased storage property per the Approved Methodologies, as well as to adjust for the removal of depreciation expense on capitalized incentive compensation.

Q. PLEASE EXPLAIN SCHEDULE 7.

A. Schedule 7 shows the calculation of the Historic Base Period per books rate base and forecasted Forward Looking Test Year rate base. The rate base includes the thirteen-month averages of the original cost of plant, accumulated depreciation, storage gas investment, materials and supplies, accumulated deferred income tax ("ADIT"), the excess accumulated deferred income tax liability ("EDIT"), customer advances, customer deposits and accumulated interest on customer deposits per the Approved Methodologies.

Q. PLEASE DISCUSS VARIANCES IN RATE BASE ITEMS BETWEEN THE HISTORIC BASE PERIOD AND THE FORECASTED FORWARD LOOKING TEST YEAR.

A. Schedule 7 compares Historic Base Period rate base items to forecasted Forward Looking Test Year items on a line by line basis in accordance with the Approved Methodologies. The primary contributor to the growth in rate base is capital investment (plant additions) as the Company continues to invest in the safety and reliability of its system.

Q. HOW DID YOU DETERMINE THE LEVEL OF DIRECT CAPITAL INVESTMENT (PLANT ADDITIONS) TO INCLUDE IN THE FORWARD LOOKING TEST YEAR?

A. The level of direct capital investment included in the forward looking test year is based on the detailed FY2019 capital investment budget of $59.44 million. Consistent with the Company's annual planning and budgeting cycle, that capital investment budget was approved by the Company's Board of Directors in September of 2018 and pertains to budgeted investment for October 2018 through September 2019. The Company's most recent five year plan, also approved by the Board of Directors in September of 2018, anticipates direct capital investment of $66.40 million for FY2020. To project capital additions for the months of October 2019 through May 2020, the Company calculated a capital investment growth factor as follows:

(2020 capex - 2019 capex)/2019 capex

Applying the above growth rate formula to the fiscal year planned investment amounts identified above, the growth rate is:

($66.40 million - $59.44 million)/$59.44 million = 11.7%.

The 11.7% growth factor is applied to the most recent budget on a month by month basis in order to project the months of the forward looking test year from October - May. This has been the forecasting process used by the Company in each forward looking filing filed pursuant to the ARM tariff.

Q. WHAT ADJUSTMENTS ARE MADE TO THE HISTORIC BASE PERIOD AND FORWARD LOOKING TEST YEAR RATE BASE?

A. I have included a deviation to the Approved Methodologies in accordance with the ARM Tariff which affects the amounts on Schedule 7. The adjustment removes ADIT items not reflected in cost of service as discussed in David Dittemore's testimony in Docket Nos. 18-00034 and 18-00097 and agreed to by Company witness Ms. Jennifer Story in her rebuttal testimony in Docket No. 18-00034. The ADIT items in question are for pension and incentive compensation (but do not include Director's Stock Award which is not a component of incentive compensation). In addition to that deviation and consistent with prior ARM filings, Schedule 7 also includes adjustments for cash working capital and the net book value of inter-company leased storage property. The revenue and expense lag factors from the Company's lead/lag study prepared in Docket No. 14-00146 were applied to actual results in order to calculate the Company's actual cash working capital requirement consistent with the Approved Methodologies.

Q. WAS THE DEVIATION MENTIONED ABOVE PROPERLY DISCLOSED ON THE CERTIFICATION INCLUDED WITH THE COMPANY'S FILING AS REQUIRED BY THE ARM TARIFF?

A. Yes. The deviation is briefly described in Attachment A to the Certification included with the filing

Q. PLEASE EXPLAIN SCHEDULE 8.

A. Schedule 8 shows the calculation of state excise taxes and income taxes on the required return on rate base for both the Historic Base Period and the Forward Looking Test Year, adjusted with costs and revenues as presented in Schedules 2-7.

Q. DID YOU MAKE ANY CHANGES TO THE CALCULATION OF THE GROSS UP FACTOR CALCULATED ON WP 8.2?

A. Yes. I have included a deviation to the Approved Methodologies that partially agrees with the testimony of Mr. Hal Novak in Docket No. 18-00097. Consistent with his recommendation, I have used total revenues as the denominator in calculating the portion of the gross up factor relating to forfeited discounts on workpaper 8.2. I disagree, however, with his recommendation to similarly calculate the portion of the gross up factor relating to allowance for uncollectibles and have therefore maintained the existing calculation consistent with the Approved Methodologies for that item.

Q. WAS THE DEVIATION MENTIONED ABOVE PROPERLY DISCLOSED ON THE CERTIFICATION INCLUDED WITH THE COMPANY'S FILING AS REQUIRED BY THE ARM TARIFF?

A. Yes. The deviation is briefly described in Attachment A to the Certification included with the filing

Q. PLEASE EXPLAIN SCHEDULE 9.

A. Schedule 9 shows the calculation of the overall cost of capital based on the capital structure, debt cost rates, and the required rate of return on equity required for the Forward Looking Test Year. It is comprised of the actual equity balance and actual long-term debt balance as of September 30, 2018, and a twelve-month average short-term debt balance for the twelve months ending September 30, 2018. The authorized return on equity is 9.80% and the actual cost of debt is calculated on WP 9-2 and WP 9-3 of the filing, per the Approved Methodologies.

Q. PLEASE EXPLAIN SCHEDULE 10.

A. Schedule 10 shows the calculation of a rate of return on rate base and a rate of return on the equity financed portion of rate base for the Historic Base Period and the Forward Looking Test Year, adjusted with costs and revenues as presented in Schedules 2 through 9, per the Approved Methodologies.

Q. PLEASE EXPLAIN SCHEDULE 11.

A. Schedule 11 presents the forecasted billing determinants and calculation of new tariff rates by customer class and rate schedule for the Forward Looking Test Year consistent with the cost of service and net revenue deficiency presented in Schedule 1. In accordance with the ARM tariff, the proposed Annual Reconciliation Revenue Requirement from Docket No. 18-00097 is added to the revenue deficiency that the Company has filed in this ARM filing. The revenue requirement also includes the amortization of the excess deferred income tax liability discussed hereinabove and referenced on Schedule 1. The net revenue requirement (comprised of the deficiency for the Forward Looking Test Year ending May 31, 2020 plus the Annual Reconciliation Revenue Requirement from Docket No. 18-00097 minus the amortization of the excess deferred tax liability) is distributed across the billing determinants (customer classes and rate schedules) forecasted in this filing, consistent with the ARM tariff and Approved Methodologies.

Q. HAVE THE COST OF SERVICE ITEMS FOR WHICH THE COMPANY SEEKS RECOVERY BEEN PRUDENTLY INCURRED?

A. Yes. The budgeting and forecasting methodologies used as the basis for the forecasted cost of service in this filing are consistent with those documented in my pre-filed direct testimony in Docket No. 14-00146. These are the same methodologies, policies and procedures that are the basis for the Approved Methodologies as defined by the ARM tariff. The cost of service items for which the Company seeks recovery, particularly but not limited to capital investments and operating expenses, have been prudently incurred and/or have been prudently forecasted to be incurred.

Q. **DID THE COMPANY MAKE ANY ACCOUNTING CHANGES RECENTLY THAT MERIT DISCUSSION?**

A. Yes.

Q. **PLEASE EXPLAIN.**

A. Effective October 1, 2018, the Company changed how it valued its storage accounts that serve its Tennessee and Virginia service areas.

Q. **PLEASE DESCRIBE THE CHANGE AND THE REASON FOR MAKING THE CHANGE.**

A. The Company changed from the First In First Out ("FIFO") inventory methodology to the Weighted Average Cost of Gas ("WACOG") methodology. Atmos Energy Corporation maintains 48 regulated storage fields across the regulated distribution segment consisting of approximately 71 MMBTUs of capacity. Prior to the change, the average cost method was used for substantially all of the Company's storage fields, with Tennessee and Virginia being the only exceptions. The Company felt that the change would better align these two rate jurisdictions with the remaining distribution operations and provide consistency across the enterprise.

Q. **DOES THE CHANGE INCREASE THE COMPANY'S GROSS MARGIN REVENUE REQUIREMENT?**

A. No. The change only impacts how the storage accounts are valued which flow through the Purchased Gas Adjustment (PGA) mechanism.

V. CONCLUSION

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

A. I respectfully request that the Commission approve the Company's 2019 ARM filing and the 2019 ARM Revenue Requirement, which have been prepared in accordance with the Approved Methodologies approved and adopted by the Commission in Docket No. 14-00146.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION	)	
ANNUAL RECONCILIATION	)	**Docket No. 19-XXXXX**
OF ANNUAL REVIEW MECHANISM	)	

VERIFICATION

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 31st day of January, 2019.

Notary Public

My Commission Expires: 9/1/2020

GISELLE R HEROY
Notary Public, State of Texas
Comm. Expires 09-01-2020
Notary ID 13080484-2