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November 13, 2019

Victoria Lawless, Docket Manager  
Tennessee Public Utility Commission  
500 Deaderick Street, 4<sup>th</sup> Floor  
Nashville, TN 37242

**VIA HAND DELIVERY AND E-MAIL**

[tpuc.docketroom@tn.gov](mailto:tpuc.docketroom@tn.gov)

RE: Atmos Energy Corporation  
Petition for Approval of Agreement with Brown-Forman  
Corporation, d/b/a Jack Daniel Distillery  
TPUC Docket No. 19-00072

Dear Ms. Lawless:

Enclosed is the non-confidential portion of Atmos Energy's Response to the Staff's Data Request #2 dated November 7, 2019 to be filed in the referenced matter. Also enclosed is a sealed envelope containing the **CONFIDENTIAL** portion of the response, both in hard copy and on a thumb drive. This is for Staff use only and is not to be posted to the website.

Best regards.

Sincerely,



A. Scott Ross

ASR:prd

Enclosures

cc: Michelle Mairs  
Deputy Director Utilities Division

**Docket No. 19-00072**  
**Atmos Energy Corporation, Tennessee Division**  
**Staff DR Set No. 2**  
**Question No. 2-01**  
**Page 1 of 1**

**REQUEST:**

Please provide the Excel files for the Confidential Spreadsheet submitted in response to Staff's data request question #3 on October 18, 2019. Include any additional Excel files showing the calculation of the amount of Aid in Construction required from Jack Daniel based on the guaranteed margins as outlined in the Agreement.

**RESPONSE:**

See Attachment "CONFIDENTIAL Jack Daniels Project Analysis 2019 - FINAL TPUC DR v1"

**Docket No. 19-00072**  
**Atmos Energy Corporation, Tennessee Division**  
**Staff DR Set No. 2**  
**Question No. 2-02**  
**Page 1 of 1**

**REQUEST:**

The Commission's long-standing policy and recent order in Docket 18-00001 requires each utility to collect an amount up-front in order for the utility to have the necessary funding to in-turn pay the associated tax liability resulting from receiving Contributions-in-Aid-of-Construction ("CIAC"). Attached is a copy of the tariff language recently ordered in Docket No. 18-00001 which reiterates the Commission's policy which was initially established subsequent to the 1986 Tax Reform Act. Based upon the new federal tax rate, the correct tax rate amount for a utility to collect is 26.58%  $(.21 / (1 - .21))$  of all property/cash donated as CIAC. The Commission, however, has determined that in accordance with state law provisions, the state excise tax is not owed on CIAC and therefore should not be collected from the contributor. Upon review of Atmos' tariff, the term Aid-in-Construction ("AIC") is used and discussed within Atmos' General Rules and Regulations section of its tariff (specifically T.R.A. No. 1, 2nd Revised Sheet No. 63, Canceling 1st Revised Sheet No. 63). Please clarify whether the term AIC, as used by Atmos, is synonymous with the term CIAC. If the terms are different please discuss all differences in their application for property/cash donated to Atmos, including allowable customer refunds.

**RESPONSE:**

The term "AIC" on T.R.A. No. 1, 2nd Revised Sheet No. 63 is synonymous with CIAC.

**Docket No. 19-00072**  
**Atmos Energy Corporation, Tennessee Division**  
**Staff DR Set No. 2**  
**Question No. 2-03**  
**Page 1 of 1**

**REQUEST:**

If AIC is synonymous with CIAC, it appears that Atmos' tariff may not be consistent with well-established Commission policy requiring federal tax for CIAC to be collected in full at the time of facilities/cash are given to the utility. If these terms are synonymous, please discuss Atmos' position regarding its current tariff in light of existing Commission policy regarding CIAC.

**RESPONSE:**

While ordering paragraph two from the order in Docket No. 18-00001 mandating specific tariff language did not apply to Atmos Energy, the Company's tariff incorporates the impact on taxes and funding associated with AIC. As per Atmos Energy Tariff 2<sup>nd</sup> Revised Sheet No. 63, the amount of AIC that customers may be required to remit to the Company is "including any applicable taxes."

The Company's practice is to account for the applicable taxes by calculating the interest carrying cost using a time value of money or foregone return approach over the life of the asset. The Company recognizes taxable income from AIC in the year it is received and sets up a corresponding tax asset. That tax asset is then depreciated over the remaining life of the asset (e.g. MACRS - 15 or 20 years). The net tax impact to the Company is zero when taking into account the income recognized in the initial year of AIC receipt and the following years of depreciation deductions. See response to Staff Data Request 2-6 below for an example of how this works in connection with the AIC associated with Jack Daniels Distillery.

**Docket No. 19-00072**  
**Atmos Energy Corporation, Tennessee Division**  
**Staff DR Set No. 2**  
**Question No. 2-04**  
**Page 1 of 1**

**REQUEST:**

Please clarify whether Atmos utilizes Customer Advances and discuss all customer and company terms relating to Customer Advances, including any refund allowances.

**RESPONSE:**

Atmos does not regularly use Customer Advances in Tennessee. There have only been five instances of Customer Advances in Tennessee over the past ten years, which all together totaled less than \$20,000. There are no Customer Advances associated with the Jack Daniels Distillery project.

**Docket No. 19-00072**  
**Atmos Energy Corporation, Tennessee Division**  
**Staff DR Set No. 2**  
**Question No. 2-05**  
**Page 1 of 1**

**REQUEST:**

Provide journal entries for both AIC and CIAC, detailing differences if there are any, and also provide the journal entries for Customer Advances. Entries should include all affected accounts when property/cash is given and entries when money is given back to the customer.

**RESPONSE:**

As already stated above, AIC is synonymous with CIAC. As there are no current Customer Advances in Tennessee, there are no journal entries associated with them to provide.

Also, Jack Daniels Distillery will not pay any AIC until the Commission approves this Special Contract, so there are currently no journal entries associated with AIC.

**Docket No. 19-00072**  
**Atmos Energy Corporation, Tennessee Division**  
**Staff DR Set No. 2**  
**Question No. 2-06**  
**Page 1 of 1**

**REQUEST:**

Discuss in detail how contributions from Jack Daniel Distillery will be handled, including the type of contribution (AIC, CIAC, or Customer Advance), the required federal tax payments if applicable, and any customer refunds if allowed. Further, identify any federal tax amounts that Jack Daniel Distillery will be paying Atmos for any contributions deemed to be CIAC.

**RESPONSE:**

AIC received from Jack Daniel Distillery will be allocated and booked to the project to serve Jack Daniel Distillery and used to offset rate base. Income will be recognized for tax purposes and a corresponding tax asset will be established and depreciated over the remaining 20-year life of that tax asset.

Embedded in Jack Daniels Distillery's negotiated AIC for this project is a recoupment of the net present value of the carrying costs associated with the tax associated with the income recognized in year 1 and the tax deduction during the 20 years of depreciation of the facilities to be constructed with the AIC. That calculation is shown on the attached spreadsheet and was calculated based upon the Company's awarded ROE of 9.8% in Tennessee.