Docket No. 19-00076
Atmos Energy Corporation, Tennessee Division
CPAD DR Set No. 4
Question No. 4-01

REQUEST:

Refer to Page 2 of Attachment 1 included with the Company's response to CA3-1 regarding pension funding. Specifically note that the "Funding Update" from the Company's actuary here states that "The Minimum Required Contribution for 2019 is $0." Given that the required minimum contribution was zero during 2019, explain the Company's rationale to fund a total of $15.5 million in pension contributions (separate $7.0 million and $8.5 million contributions as shown on Atmos workpapers 4-4 and 4-4A) during the ARM reconciliation period.

RESPONSE:

The Company's funding policy is to contribute an amount equal to the minimum required contribution and determine from time to time whether to make additional contributions depending on cash, tax or other considerations.

For 2018 and 2019, the Company made additional contributions to avoid the Pension Benefit Guaranty Corporation (PBGC) variable rate premium (VRP). For the 2018 and 2019 plan years, these amounts were $7.0 million and $8.5 million, respectively.

If the plan is less than 100% funded on a VRP basis, then the plan must pay to the PBGC (from the trust) a VRP equal to 4.5% of the unfunded liability. To avoid this expense to the PBGC, the Company made additional contributions to the trust. Over time, this decision is expected to improve the funded status and lower the required contributions in future years.

The minimum required contribution (MRC) to be paid for a plan year is based on a liability measure that is lower than a market value because of temporary pension funding relief (the Moving Ahead for Progress in the 21st Century Act, or MAP-21, as extended). By pre-funding on a basis that ignores the temporary funding relief, the Company is expected to contribute less cash over the next 10 years relative to contributing only the MRC each year. The likelihood of unexpected large contributions in later years is expected to be reduced by accelerating contributions to earlier years.

REQUEST:

Refer to Attachment 1 included with the Company's response to CA3-2 regarding pension assets and liabilities. Specifically note that Attachment 1 shows that the Company's pension assets are approximately $531.7 million at September 30, 2018 while the pension liabilities are approximately $504.7 million at this same time giving an over-funded balance of approximately $27.0 million. Given that the Company's pension plan is overfunded, explain the Company's rationale to fund a total of $15.5 million in pension contributions (separate $7.0 million and $8.5 million contributions as shown on Atmos workpapers 4-4 and 4-4A) during the ARM reconciliation period.

RESPONSE:

The pension liability shown in Attachment 1 to the Company's response to CPAD DR No. 3-02 is the liability for purposes of year-end financial reporting as required by Accounting Standards Codification Topic 715-20-50 (ASC 715). The comparison of accounting obligations for balance sheet and income statement purposes cannot be relied upon to determine the need for future cash contributions because the accounting liability is determined differently than the liability measures described in the Company's response to CPAD DR No. 4-01, including differences in measurement date, demographic assumptions, economic assumptions, and actuarial cost methods. The Company's rationale for funding $15.5 million during the reconciliation period is described in the Company's response to CPAD DR No. 4-01. Note that as of September 30, 2019, pension liabilities on an accounting basis are $577.3 million and pension assets are $530.1 million, resulting in a net balance sheet liability of $47.2 million.

REQUEST:

Refer to pages 45-47 of the Commission's Order in Docket No. 18-00017 regarding pension expense for Chattanooga Gas Company's in its last rate case. Specifically note here that the Commission addresses its policy for pension expense as follows:

> J(3). Pension and OPEB Assets
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> The Company forecasts a rate base addition of $9.0 million related to pension and other post-retirement ("OPEB") assets whereas the Consumer Advocate did not include any provision for pension and OPEB assets in its rate base forecast. In this case, CGC proposes a change to how pension and OPEB expenses and related accruals are treated by this Commission. Mr. Tucker offered testimony recommending the usage of the accounting standards for pensions and OPEBs issued by the Financial Accounting Standards Board ("FASB") to determine the amount of pensions and OPEB costs for ratemaking purposes. The Consumer Advocate, however, states that pension and OPEB expenses should be limited to cash contributions only, which results in no accrued assets in this case. Mr. Novak correctly testified that the Commission has a long-established ratemaking policy of only allowing rate recovery of the minimum required contribution for pension and OPEB expenses. Further Mr. Novak pointed out that there is no requirement for the Commission to follow the accounting principles established by other authorities, including the "generally accepted accounting principles" promulgated by FASB, as requested by the Company in this case.
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> The panel concurred with the Consumer Advocate's position on this issue. For decades this Commission has recognized the expense of pension and post-retirement benefits in service rates in accordance with the actuarially-determined minimum contribution requirement, as opposed to the FASB accounting standards proposed by the Company. The panel found that this long-standing ratemaking policy should be maintained going forward. Further, the panel agreed with the Consumer Advocate that determining service rates based on minimum required contributions for pensions and post-retirement benefits is appropriate policy, because it: (1) applies consistently to all utilities, (2) most closely matches today's costs with today's customers, (3) is not subject to the same changes in assumptions for market conditions as the actuary's recommended contribution, and (4) is a more stable and consistent amount for setting rates in the near-term. Therefore, the panel voted unanimously to adopt pension and OPEB assets of zero for the attrition year in this case, consistent with established Commission precedent. [Emphasis added.]

Given that the required minimum contribution for pension funding was zero during 2019, explain the Company's rationale to request recovery of $15.5 million in pension funding through the current ARM reconciliation and therefore deviate from the Commission's policy in this area.

RESPONSE:

The Company believes that the situation described in the referenced Chattanooga Gas Company proceeding is distinguishable from what is presented in the Company's ARM filing. The Company is not trying to forecast a rate base addition relating to a pension contribution. Rather, the Company is trying to reflect a known and measurable pension contribution. The Company's contribution was prudent because it enabled the Company to avoid making a mandatory payment to the Pension Benefit Guaranty Corporation.

Further, unlike Chattanooga Gas Company, the Company has a comprehensive ARM. There is no need to consider what is "a more stable and consistent amount for setting rates in the near-term." Unlike setting rates in traditional ratemaking, the amounts of the Company's actual pension contributions will be annually updated and reflected in rates.

Lastly, adopting the approach from the Chattanooga Gas Company proceeding is inconsistent with one of the stated goals of the Company's ARM - to allow the Company an opportunity to achieve its awarded rate of return. Minimum required contributions in future years are in part determined by past contributions. As described in the Company's response to 4-01, by contributing more than the minimum required contribution in one time period, the Company will reduce the minimum required contribution in future periods. If the Company contributes funds in excess of the minimum required contribution level and it were disallowed recovery, it could never reflect those contributions in rates.