BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION	)	
ANNUAL RECONCILIATION	)	**DOCKET NO. 19-00076**
OF ANNUAL REVIEW MECHANISM	)	

PRE-FILED REBUTTAL TESTIMONY OF JENNIFER K. STORY ON BEHALF OF ATMOS ENERGY CORPORATION

I. INTRODUCTION OF WITNESS

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

A. My name is Jennifer K. Story. My business address is 5420 LBJ Freeway, Suite 1600, Dallas, TX 75240. I am employed by Atmos Energy Corporation ("Atmos Energy" or the "Company") as Director of Regulatory Reporting.

Q. WHAT ARE YOUR JOB RESPONSIBILITIES?

A. As Director of Regulatory Reporting for Atmos Energy, I am responsible for oversight and management of the integration of the Company's financial books and records in rate and regulatory filings. I am responsible for managing regulatory tax matters for the Company as well as assisting in the coordination of the Company's rate and regulatory strategy. This oversight includes ensuring that the Company's rate filings appropriately reflect tax expense and accumulated deferred income taxes ("ADIT") and are in compliance with applicable IRS requirements.

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. I received my education at the University of Texas at Dallas. In 2002, I received a Bachelor of Science degree with a major in accounting. I am a licensed certified public accountant in the State of Texas.

I worked in both a large corporate tax department and in public accounting prior to joining Atmos Energy in December 2006. After joining Atmos Energy, as Director of Income Tax, I assumed the oversight and management of all income tax matters for the Company. In January 2019 I became Director of Regulatory Reporting. I serve as a representative for the Company on the American Gas Association's Tax Committee.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION ("COMMISSION") OR OTHER REGULATORY COMMISSIONS?

A. Yes. I have submitted direct and rebuttal testimony in the following proceedings:

Regulatory Authority	Proceeding	Testimony Submitted
Kentucky Public Service Commission	Docket No. 2017-00481	Direct
Kentucky Public Service Commission	Docket No. 2017-00349	Rebuttal
Kentucky Public Service Commission	Docket No. 2018-00281	Direct
Colorado Public Utilities Commission	Proceeding No. 15AL-0299G	Rebuttal
Mississippi Public Service Commission	Docket No. 2015-UN-049	Rebuttal
Railroad Commission of Texas	GUD No. 10580	Rebuttal
Railroad Commission of Texas	GUD No. 10640	Rebuttal
Railroad Commission of Texas	GUD No. 10742	Direct
Railroad Commission of Texas	GUD No. 10743	Direct
Railroad Commission of Texas	GUD No. 10779	Direct and Rebuttal
Tennessee Public Utility Commission	Docket No. 17-00012	Direct and Rebuttal
Tennessee Public Utility Commission	Docket No. 18-00067	Direct
Tennessee Public Utility Commission	Docket No. 18-00034	Direct and Rebuttal
Virginia State Corporation Commission	Case No. PUR-2018-00014	Direct
Kansas Corporation Commission	Docket No. 19-AMTG-525-RTS	Direct and Rebuttal

II. PURPOSE OF TESTIMONY

Q. HAVE YOU REVIEWED THE INTERVENOR TESTIMONY FILED BY CONSUMER ADVOCATE WITNESS WILLIAM H. NOVAK IN THIS CASE?

A. Yes, I have reviewed Witness William H. Novak's testimony on behalf of the Consumer Advocate.

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

A. Yes.

- Exhibit JKS-1, which consists of the Company's responses to CPAD 4-01; 4-02; and 4-03
- Exhibit JKS-2, which is a white paper on the Pension Guaranty Benefit Corporation ("PBGC") Premium Burden prepared by October Three, LLC
- CONFIDENTIAL Exhibit JKS-3, which is a confidential analysis of the Company's Qualified Retirement Plans and Trusts
- Exhibit JKS-4, which are responses of the Consumer Advocate to data requests of Atmos Energy

Q. WERE THE EXHIBITS LISTED ABOVE PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. It is threefold. First, I adopt and incorporate by reference the Direct Testimony filed in this proceeding by Mr. Gregory K. Waller. Mr. Waller has since left Atmos Energy for a position at another company, and so I am adopting as my own the direct testimony previously submitted by Mr. Waller in this matter. Second, I rebut the arguments made by Mr. Novak regarding the treatment of the Company's pension contributions made in 2019. Third, I confirm Mr. Novak's calculations relating to adjustments that the Company made to its reconciliation amount involving short-term debt, gas inventory, and working capital.

III. AREAS OF AGREEMENT/DISAGREEMENT

Q. PLEASE SUMMARIZE THE AREAS OF AGREEMENT AND DISAGREEMENT WITH MR. NOVAK'S TESTIMONY.

A. I agree with Mr. Novak's testimony except for his recommended treatment of the Company's pension contributions. Mr. Novak's recommendations regarding treatment of pension contributions are inconsistent with: (1) the stated intent of the ARM to allow the Company an opportunity to achieve its awarded rate of return; and (2) the plain language of the ARM, which allows the Company to recover actual contributions to the pension. The Company's disagreement with Mr. Novak essentially comes down to a single issue – the eligibility of inclusion of Atmos Energy's net allocated pension funding costs of approximately $825,000.

Q. DID YOU THINK MR. NOVAK'S CHARACTERIZATION OF COMMISSION POLICY REGARDING PENSION CONTRIBUTIONS WAS INACCURATE?

A. Yes. Mr. Novak quoted from and referenced Commission decisions, but failed to properly distinguish that those decisions (1) dealt with traditional ratemaking and did not involve annual rate mechanisms; (2) dealt with projections of contributions rather than actual contributions; and (3) involved situations where Variable Rate Premium ("VRP") charged by the Pension Benefit Guaranty Corporation ("PBGC") was not at issue.

Q. DID YOU HAVE ANY OTHER REACTIONS TO MR. NOVAK'S TESTIMONY?

A. Yes. I noted that Mr. Novak's testimony makes no reference to VRP, even though Mr. Novak's Exhibit WHN-4 contains detailed analysis from Willis Towers Watson regarding the required level of contribution necessary for the Company to avoid paying VRP to the PBGC, and even though the Company further explained this issue in data request responses sent to the Consumer Advocate (which I have included as Exhibit JKS-1).

IV. <u>PENSION CONTRIBUTIONS</u>

Q. IS THERE ANY DISAGREEMENT ON THE ACTUAL AMOUNTS CONTRIBUTED TO THE COMPANY'S PENSION FUND?

A. No, it is uncontroverted that the Company contributed $15.5 million total, for which the net funding attributable to Tennessee was $824,764.[1]

Q. WHAT DOES THE COMPANY'S ANNUAL REVIEW MECHANISM PROVIDE CONCERNING RECOVERY OF PENSION CONTRIBUTIONS?

A. The Stipulation and Settlement Agreement in Docket 14-00146 provides as follows concerning the recovery of amounts contributed to the company's pension plan: "In years that the Company makes actual cash contributions to its pension fund, it shall be allowed to recover those cash contributions as part of the annual reconciliation process described below."[2]

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[1] Direct Testimony of William H. Novak, Page No. 10.
[2] Stipulation and Settlement Agreement at 14.

Q. IF THERE IS NO DISPUTE OVER THE ACTUAL LEVEL OF THE COMPANY'S PENSION CONTRIBUTIONS, THEN WHY IS MR. NOVAK RECOMMENDING A DISALLOWANCE?

A. Mr. Novak excluded all amounts that the Company contributed to its pension fund in excess of the "required minimum contribution."[3] Notably, at that level of contribution, the Company still would have been required to pay Variable Rate Premiums ("VRP") to the PBGC.

Q. WHY DID THE COMPANY MAKE PENSION CONTRIBUTIONS AT THE LEVELS IT DID?

A. The Company made its pension contributions at those levels to avoid paying a VRP to the PBGC. Had the Company simply made no contribution to its pension fund, it would have been required to pay $330,000 in VRP to the PBGC in 2019 and would have been projected to have been required to pay over $1,000,000 in 2020.

Q. WHAT IS VRP?

A. The VRP is a form of tax paid to the PBGC to ensure that pension plan participants ultimately receive their participant benefits. The VRP is calculated in two parts – a flat-rate premium and a variable-rate premium.

Q. IS VRP A NEW CONCEPT?

A. No, although multiple recent regulatory changes have dramatically increased VRP payment obligations. In 2019, variable rate premiums were 367 percent higher than they were in 2013.[4] Additionally, historically low interest rates have impacted VRP.

[3] Direct Testimony of William H. Novak, Page No. 11.
[4] Exhibit JKS-2

The inverse relationship between interest rates and liabilities has increased pension liabilities to all-time highs.

Q. WHY DOES A COMPANY POTENTIALLY HAVE TO PAY VRP IF ITS PENSION PLAN HAS NO MINIMUM FUNDING REQUIREMENT?

A. Even plans that have no minimum funding requirements can have large VRP payment obligations due to the differences in assumptions used for calculating minimum funding requirements and VRP obligations. VRP obligations are calculated based on a value of vested benefits derived from interest rates published by the PBGC.[5] This is different from the calculation of a funding target for the purposes of calculating mandatory minimum contributions to a pension plan.

Q. IS IT UNUSUAL FOR A COMPANY TO HAVE A FULLY-FUNDED PENSION PLAN BUT STILL HAVE TO MAKE A VRP PAYMENT TO THE PBGC?

A. No. In fact, as shown in Exhibit JKS-2, this has become an increasingly common phenomenon.[6] In response, it has become increasingly common for companies to do exactly what Atmos Energy did, and make additional contributions to avoid paying the VRP.[7]

Q. IF THE MANDATORY VRP IS LESS THAN THE AMOUNT THE COMPANY MUST CONTRIBUTE TO AVOID THE VRP, WOULDN'T IT BE BETTER FOR THE COMPANY'S CUSTOMERS FOR THE COMPANY TO PAY THE VRP?

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[5] https://www.pbgc.gov/prac/interest/vrp

[6] The regulatory changes driving this phenomenon are explained in the Company's response to CPAD 4-02 in Exhibit JKS-1

[7] Exhibit JKS-2

A. No, because any VRP is simply paid as a tax to the PBGC, whereas pension contributions increase the balance in the Company's pension plan and will reduce future years' required contributions. To put it another way, the Company's customers get a benefit from contributions to the pension fund in the form of lower future contributions. As shown on Exhibit JKS-3, Page 6, the Company's consultants estimate that the through fiscal year end 2031, contributing just the minimum required amount would result in total expenses of $75.5 million, while contributing enough to avoid the VRP would result in total expenses of $67.9 million. The difference of $6.8 million represents payments that would have to be made to the PBGC for VRP. Avoided VRP payments benefit the Company's customers.

Q. DID MR. NOVAK ADDRESS THE MANDATORY VRP PAYMENT THAT THE COMPANY AVOIDED BY MAKING CONTRIBUTIONS TO ITS PENSION PLAN?

A. No. As I mentioned earlier, Mr. Novak makes no reference to VRP anywhere in his testimony. Likewise, the prior cases he references in his testimony also made no reference to VRP, since VRP was not an issue in those proceedings. Mr. Novak's failure to address VRP presents an incomplete picture of the Company's pension contributions.

V. <u>COMMISSION POLICY REGARDING PENSION CONTRIBUTIONS</u>

Q. PLEASE SUMMARIZE MR. NOVAK'S DISCUSSION OF THE COMMISSION'S PRIOR POLICY REGARDING PENSION CONTRIBUTIONS.

A. Mr. Novak cited to his testimony in Docket No. 92-02987 (United Cities Gas) and the Commission's decision in Docket No. 18-00017 (Chattanooga Gas Company). In both cases, the Commission only allowed *forecasted* minimum required contributions to be reflected in rates.

Q. WERE THE PENSION CONTRIBUTIONS IN THE REFERENCED CASES BASED ON ACTUAL CONTRIBUTIONS THAT HAD ALREADY BEEN MADE BY EITHER COMPANY?

A. No, they were *forecasted* contributions.

Q. IS THE DIFFERENCE BETWEEN FORECASTED AND ACTUAL CONTRIBUTIONS AN IMPORTANT DISTINCTION?

A. Yes, it is. If a utility forecasted greater pension expense than required for its forward looking test year, it would then recover that level of forecasted pension expense in rates each year until its next rate case. That would be true without regard to the level of pension contributions the utility actually made in those intervening years, regardless of whether the actual pension contributions were higher or lower than the forecasted amount.

Q. DID EITHER OF THE REFERENCED CASES INVOLVE AN ARM?

A. No, they were traditional rate cases.

Q. IS THE LACK OF AN ARM AN IMPORTANT DISTINCTION?

A. Yes, it is. With an ARM, there is no incentive for a utility to overfund its pension plan, because the ARM will annually review the Company's pension expense and ensure that the Company is neither over-earning nor under-earning. With no ARM, it is logical that the Commission would have been leery of reflecting projected amounts in rates, if a utility could then subsequently decline to fund its pension and potentially over-earn. That cannot happen with an ARM.

Neither of the Commission decisions cited by Mr. Novak involved an ARM. While the Docket No. 92-02987 is no longer available, it is known that this docket predated the legislation authorizing alternative ratemaking mechanisms, and Atmos Energy's subsequent adoption of an Annual Review Mechanism.

In Docket No. 18-00017 (cited by Mr. Novak and shown at Attachment WHN-6), the Commission was reviewing a forward-looking forecast, and this weighed heavily in its reasoning. In that case, the Commission rejected Chattanooga Gas Company's attempt to use different accounting measures to forecast future pension assets because, among other reasons, those measures may be "subject to . . . changes in assumptions for market conditions," and are less "stable and consistent" than simply forecasting minimum contribution requirements. By contrast, with an ARM, the amount claimed is an exact match to an actual cash contribution that has already been made, therefore does not rely upon any assumptions, and is the definition of stable and consistent because it is tied to actual money spent, not forecasts. Atmos Energy's ARM is in a real sense self-correcting, in that only actual pension contributions can ever become included in customer rates.

Q. DOES MR. NOVAK'S TESTIMONY ACCURATELY REFLECT THE COMMISSION'S PRIOR POLICY?

A. The Commission's policy has always been to "appropriately match the Company's current pension expense with its current ratepayers."[8] If the Commission were to disallow the Company's actual contributions in excess of the minimum required contribution, in order to match current pension expense with current customers, the Commission would have to allow the Company a credit for the avoided VRP that would have been required absent the Company's actual pension contributions.

Q. WHAT WOULD HAPPEN IF THE COMMISSION DISALLOWED ATMOS ENERGY'S CONTRIBUTIONS TO AVOID VRP?

A. While this would reduce the Company's cost of service in the short run, it would result in greater overall pension expense being passed through to customers in the long run, as utilities would have to make payments to the PBGC that would not benefit customers in future years.

Also, as evidenced by CPAD's response to Atmos Energy's First Discovery Request 1-1 included in Exhibit JKS-4, "The Tennessee portion of the $15.5 million funding, or $824,764 would not be reflected in any future ARM filing under the Consumer Advocate proposal…" This is despite the fact that the Consumer Advocate does not contest that "future minimum pension contribution requirements

[8] 1997 WL 120832 (Tenn.R.A.), 175 P.U.R.4th 347 *Re Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc.* (*Nashville Gas*).

will be lower than they otherwise would have been without the pension contributions that Mr. Novak seeks to disallow."[9] The Consumer Advocate's position is inconsistent with the Commission's decision in *Nashville Gas*, in which the utility was allowed to establish a deferred asset for the "difference between the amount of Pension expense funded, and the amount expensed on the Company's books."[10] Since Atmos Energy has already funded all of the pension expense at issue here, it should be allowed to reflect the actual pension expense funded in its rates.

VI. CONCLUSION

Q. WHAT IS YOUR CONCLUSION REGARDING THE COMPANY'S PENSION CONTRIBUTIONS?

A. For the reasons discussed above, the Company made actual contributions to its pension plan in order to avoid having to pay VRP to PBGC. It is undisputed that the pension contributions at issue here represent amounts actually contributed by the Company to its pension plan, which are properly reflected on the Company's books. The Company's decision to contribute to its pension plan instead of paying a tax to the PBGC was prudent and ultimately will save money for customers. Given that the Company is operating under an ARM, and pension expenses will be updated annually, it is appropriate and consistent with the ARM to allow these actual amounts to be reflected in the Company's rates. Mr. Novak did not challenge the prudency of the Company's contributions, rather he relies on the Commission's

[9] Exhibit JKS-4, Atmos Energy's First Discovery Request 1-3.
[10] *Nashville Gas* at Section B. viii. Pension Expense.

policy in non-ARM, traditional forward-looking ratemaking proceedings to require that forecasts reflect minimum required contributions only. While that policy may make sense in a traditional ratemaking proceeding, in the context of the Company's ARM, it would permanently disallow prudently incurred pension expenses, as indicated by the Consumer Advocate's responses in Exhibit JKS-3.

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

A. I respectfully request that the Commission approve the Annual Reconciliation filing and the Annual Reconciliation Revenue Requirement, which have been prepared in accordance with the Approved Methodologies approved and adopted by the Commission in Docket No. 14-00146. I further request that the Commission approve the proposed tariffs attached as Exhibit GKW-2 and order the Company to make the rates contained therein effective June 1, 2020.

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. 19-00076**
OF ANNUAL REVIEW MECHANISM	)	

VERIFICATION

STATE OF TEXAS)

COUNTY OF DALLAS)

I, Jennifer K. Story, being first duly sworn, state that I am Director Regulatory Reporting for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Rebuttal Testimony of Jennifer K. Story in support of Atmos Energy Corporation's filing is true and correct to the best of my knowledge, information and belief.

Jennifer K Story

Jennifer K. Story

Sworn and subscribed before me this 18th day of March, 2020.

Notary Public

My Commission Expires: 09/01/2020

NOTARY PUBLIC STATE OF TEXAS
GISELLE [illegible]
Notary Public, State of Texas
Comm. Expires 09-01-2020
Notary ID [illegible]

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.

Docket No. 19-00076
Atmos Energy Corporation, Tennessee Division
CPAD DR Set No. 4
Question No. 4-02

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.

Docket No. 19-00076
Atmos Energy Corporation, Tennessee Division
CPAD DR Set No. 4
Question No. 4-03

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
>
> 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.
>
> 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.]

Docket No. 19-00076
Atmos Energy Corporation, Tennessee Division
CPAD DR Set No. 4
Question No. 4-03

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.

Exhibit JKS-2

OCTOBER THREE®

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THE PBGC PREMIUM BURDEN REPORT - 2019

Exhibit JKS-2

CONTENTS

INTRODUCTION

We are proud to present our third annual report on the PBGC Premium Burden. As documented in prior reports, PBGC premiums have risen dramatically in the past decade, becoming the most significant source of plan overhead cost for thousands of pension plans.

PENSION SPONSORS

$1.2 billion decline

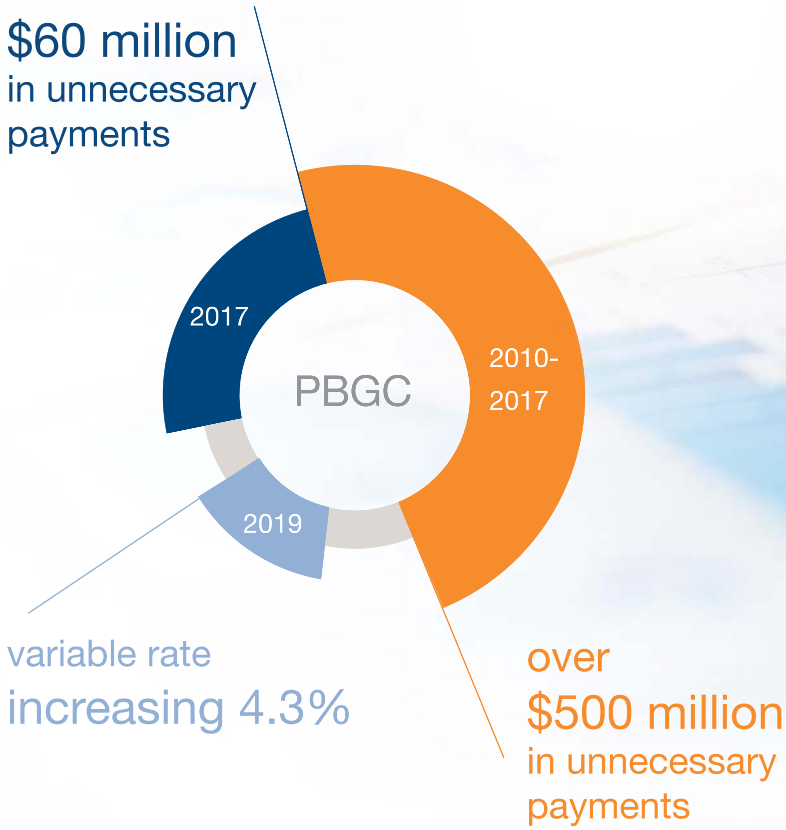
IN PREMIUMS

paid in 2018

The good news is that pension sponsors have taken action, resulting in a decline in premiums paid in 2018 of $1.2 billion, despite continued increases in premium rates. Several factors contributed to this happy reversal of recent trends:

- Record levels of voluntary contributions made for 2017
- Strong 2017 asset performance
- Continued headcount reduction via lump sum and annuity settlements.
- Increased adoption of best practices related to timing and recording of plan contributions

PREMIUMS PAID



Despite the improvement, more than 600 (mostly larger) plans paid premiums of at least $1 million last year, while another 600 (mostly smaller) plans paid premiums of at least 1% of plan assets.

While many sponsors have taken big steps to reduce premiums, hundreds of plans continue to leave easy money on the table. Our analysis indicates close to $60 million in premiums could have been saved in 2017 – and over $500 million between 2010 and 2017 – by adopting very modest changes to contribution timing and recording. If we include large voluntary year-end contributions in the analysis, missed savings between 2010 and 2017 total $1.2 billion.

Our analysis includes an industry focus on hospitals and utilities, two industries in which failure to adopt best practices have been particularly costly. Pension sponsors in these industries have much more to gain from adopting simple best practices than a typical employer.

Looking ahead, we expect premiums to jump back up in 2019, due to a combination of poor 2018 asset performance and relentless increases in premium rates – headcount premiums increasing from $74 to $80 and variable premium rates increasing from 3.8% to 4.3% in 2019.

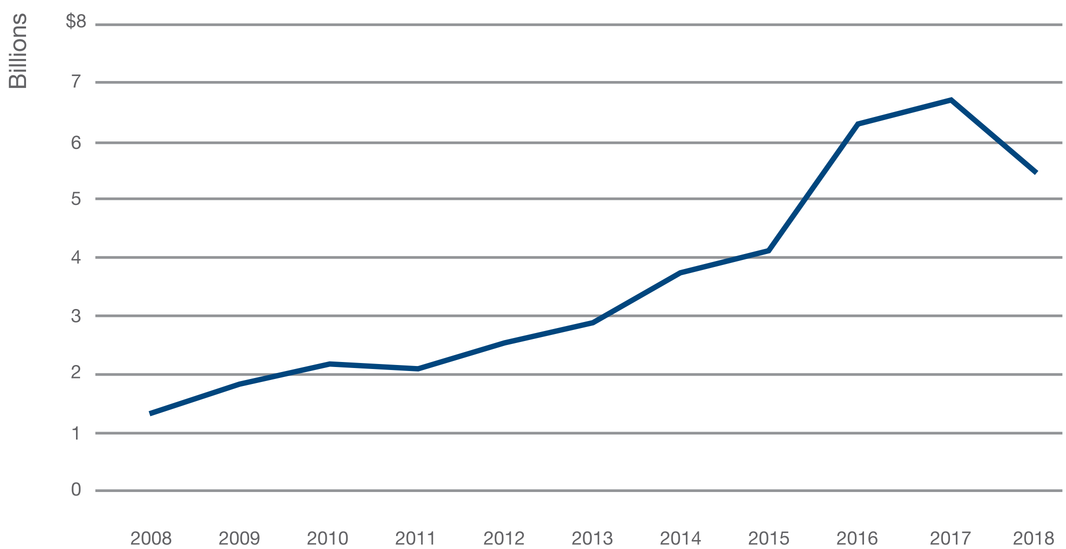
Despite the good news in 2018, the PBGC Premium Burden remains a major threat to pensions, and continued attention to premiums should be a central part of viable pension management for the foreseeable future.

SECTION 1
PREMIUM PAYMENT TRENDS

Total Premiums

During 2018, sponsors of single-employer plans paid $1.2 billion less in premiums than in 2017, a stunning 18% reduction following years of relentlessly higher premiums. Several factors contributed to the good news, including large voluntary contributions by plan sponsors, strong asset returns during 2017, and greater awareness and aggressive management of premiums, including wider adoption of the best practices highlighted in this report. Even so, PBGC premiums remain a major burden for pension sponsors, with premiums running more than four times as much as in 2008. The graph below shows the pattern of historical premium payments:

SINGLE-EMPLOYER PBGC PREMIUMS



The results above represent roughly 23,000 single-employer plans subject to PBGC premiums during 2008-2018.

More than 75% of these plans cover fewer than 250 participants each, but these plans pay less than 4% of the premiums in the PBGC single-employer program. The analysis presented in this report will focus only on the roughly 5,000 plans that cover at least 250 participants[1].

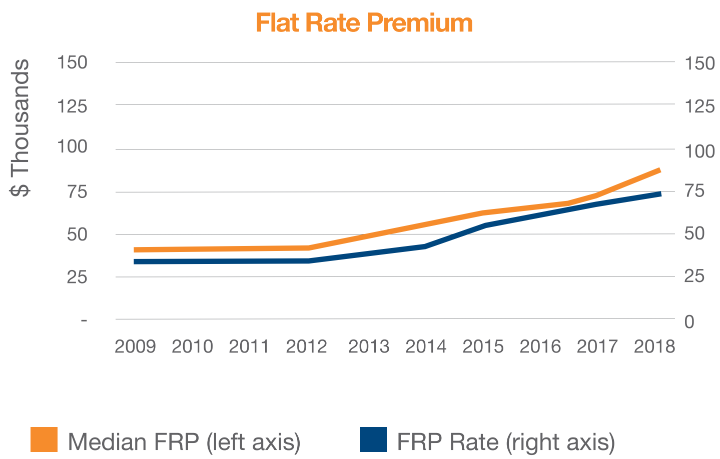
THE FLAT-RATE PREMIUM (FRP) AND VARIABLE-RATE PREMIUM (VRP)

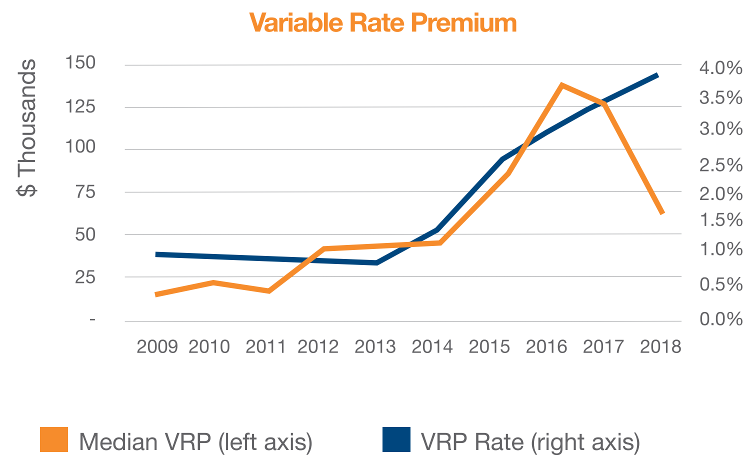
PBGC premiums for single-employer plans are calculated as the sum of (a) a flat-rate premium ($80 per participant in 2019) plus (b) a variable-rate premium (4.3% of unfunded PBGC liability in 2019, with a cap of $541 per participant).

1 Our analysis is based on publicly available information found in IRS Form 5500s from the Department of Labor and PBGC's historical premium database.

DURING 2018, SPONSORS OF SINGLE-EMPLOYER PLANS PAID **$1.2 BILLION LESS** IN PREMIUMS THAN IN 2017, A STUNNING 18% REDUCTION FOLLOWING YEARS OF RELENTLESSLY HIGHER PREMIUMS.

For our universe of roughly 5,000 plans, premiums have closely mirrored the rise in premium rates from 2009 to 2018, as shown in the graphs below--which plot the median FRP and VRP per year, respectively-- and corresponding premium rates:

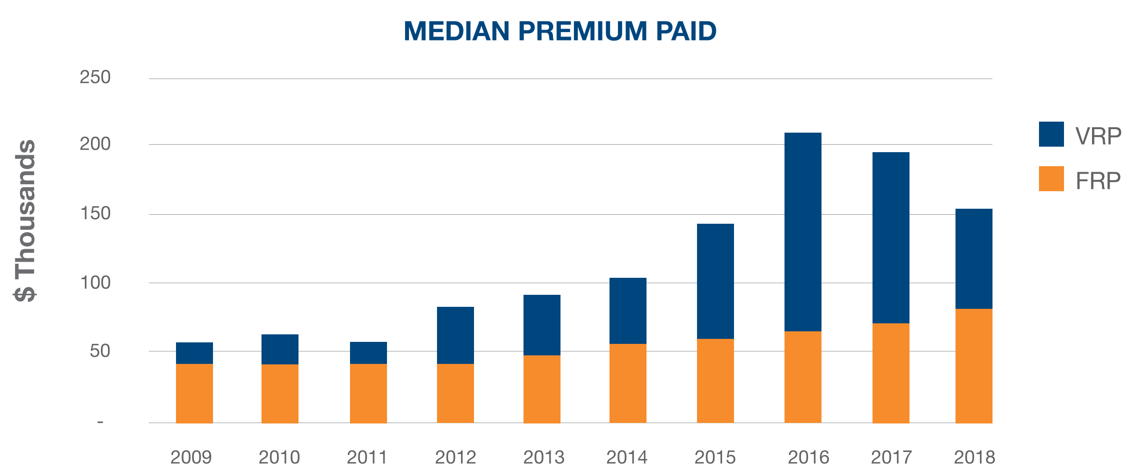




The FRPs track increases in the FRP rate closely. The FRP rate more than doubled between 2009 and 2018 (from $34 to $74 per participant), and the median plan saw its FRP double as well (from $42,000 in 2009 to $85,000 in 2018).

For the VRP, the last two years have seen a decrease, with a very large decrease in 2018 due mostly to better funded plans. Other variables like employer contributions, benefit accruals and capital market fluctuations affect the VRP. Since 2009, there has been more than a fourfold increase in the VRP rate (from 0.9% in 2009 to 3.8% in 2018), while the median VRP paid has similarly increased by more than four times (from $16,000 to $67,000). On a cautionary note, with most plan sponsors experiencing poor asset performance in 2018, we expect to see 2019 VRP move higher.

In aggregate, the VRP increased from 45% of total premiums paid in 2009 to 64% in 2018. A similar pattern holds when we combine the median FRP and VRP each year, as shown below:

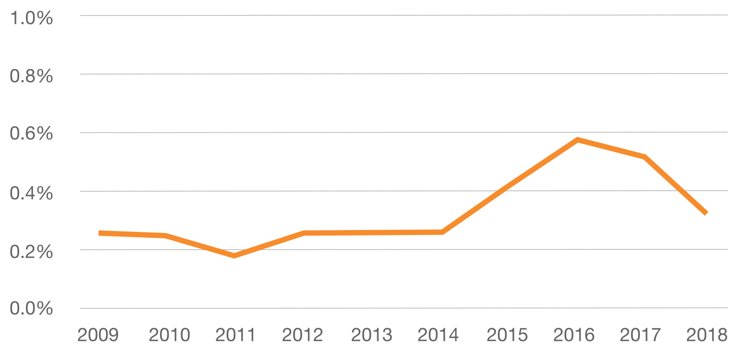


For the median plan based on total premiums, the 2018 amount was higher than this, about $225,000. This means that about 2,500 plans paid more than $225,000 in premiums last year. At the top, over 600 plans paid more than $1 million apiece in premiums in 2018.

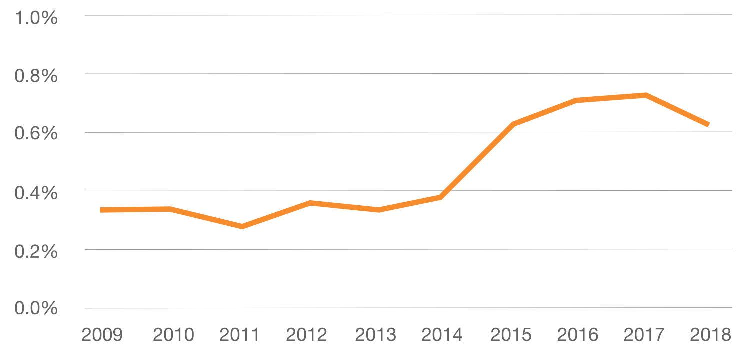
PREMIUMS AS A % OF PLAN ASSETS

Below we express median historical PBGC premiums as a percent of plan assets. These graphs underscore the headwinds of higher costs to plan sponsors.

PBGC Premiums as a % of Assets
Median Plan



PBGC Premiums as a % of Assets
Median for Plans with a VRP



The graph on the left shows the median plan premium averaged 0.25% from 2009-2015, increasing to roughly 0.50% during 2016-2017, but decreasing to 0.30% in 2018.

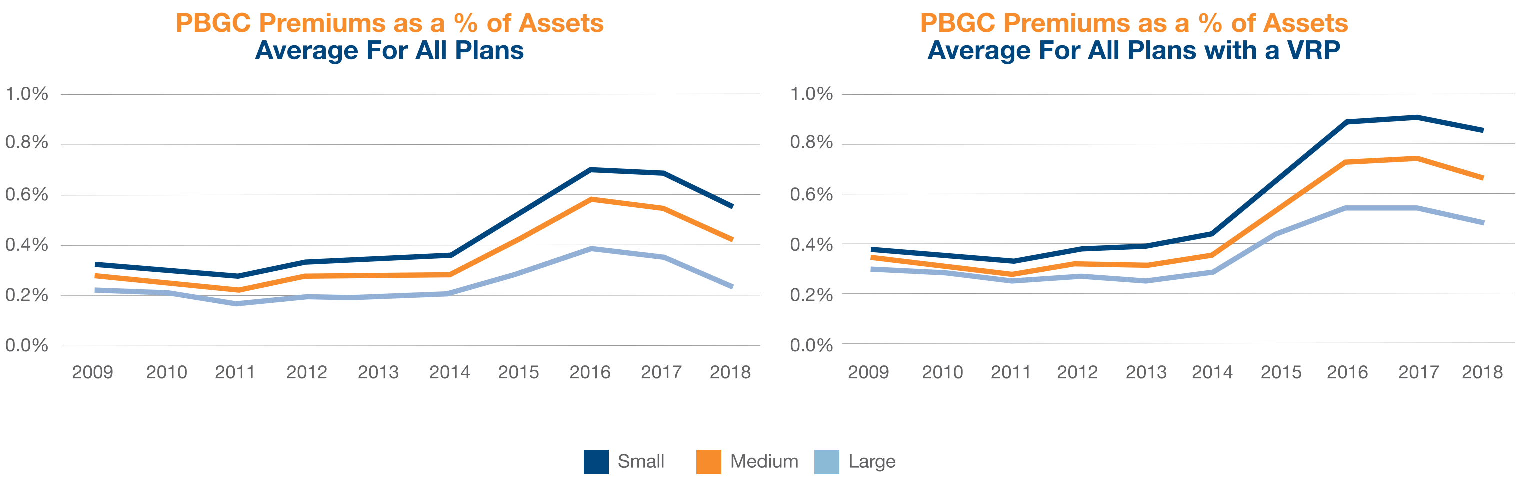
The graph on the right zeroes in on plans that pay VRPs – about 70% of the total historically, but only 56% (roughly 3,000 plans) in 2018. Among this group, we see premiums for the median plan averaging about 0.30% per year during 2009-2015, increasing to 0.70% during 2016-2017 before decreasing to 0.62% in 2018.

From this, we infer that some 500 plans that owed variable premiums in 2017 were fully funded in 2018 and avoided the VRP altogether.

Still, for 2018, 600 plans paid premiums of at least 1% of plan assets. In a world of 4% interest rates, PBGC premiums continue to represent a huge cost wedge for many pension sponsors.

IN 2018, **600 PLANS** PAID PREMIUMS OF AT LEAST **1% OF PLAN ASSETS**.

The graphs below break down plans by size. For this purpose, we define "Small" plans as those with 250-999 participants, "Medium" plans as those with 1,000-9,999 participants, and "Large" plans as those with at least 10,000 participants. Average (not median) premiums per year by plan size are shown, both for our universe of plans (left graph) and the relevant subset of plans that are paying a VRP (right graph).

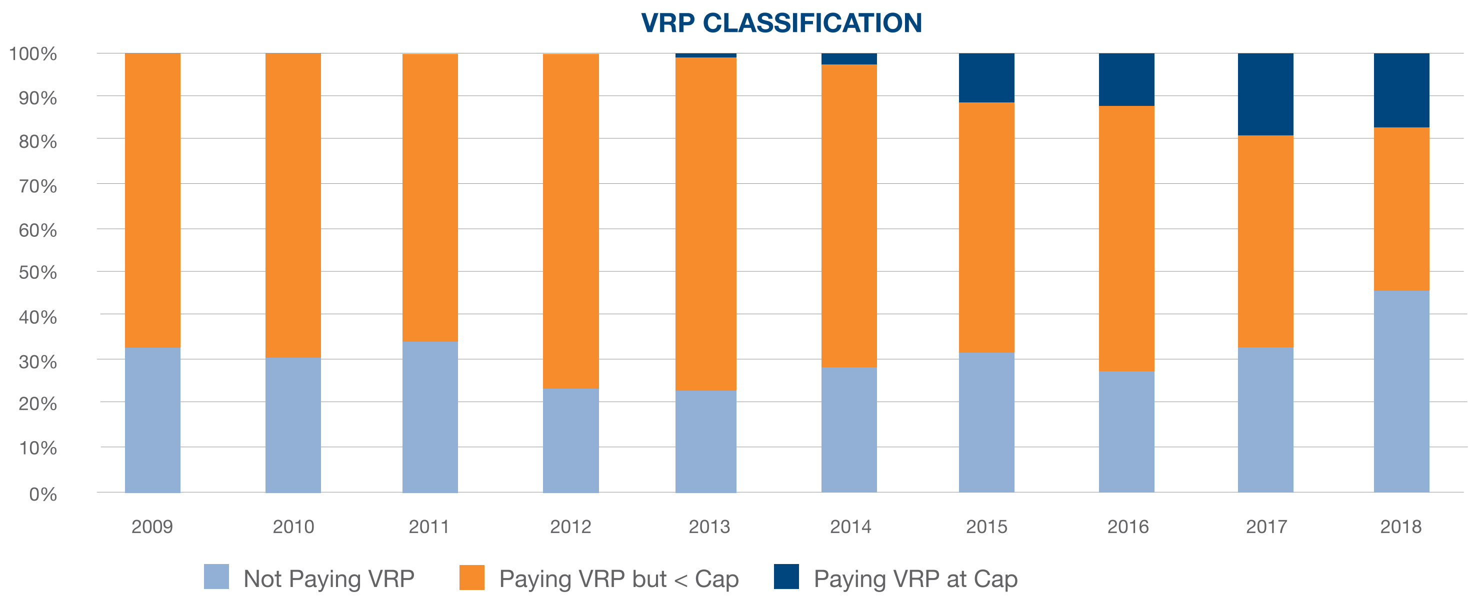


Small plans face the most serious headwinds from PBGC premiums, with premiums averaging over 0.80% of plan assets in 2016-2018 for plans paying a VRP.

But Large plans are suffering too – Large plans paying a VRP saw average 2016-2018 premiums approximately 0.50% of assets. For an underfunded plan with $5 billion in assets, that's $25 million in annual overhead.

CLASSIFICATION OF PLANS BY PREMIUM STATUS AND SIZE

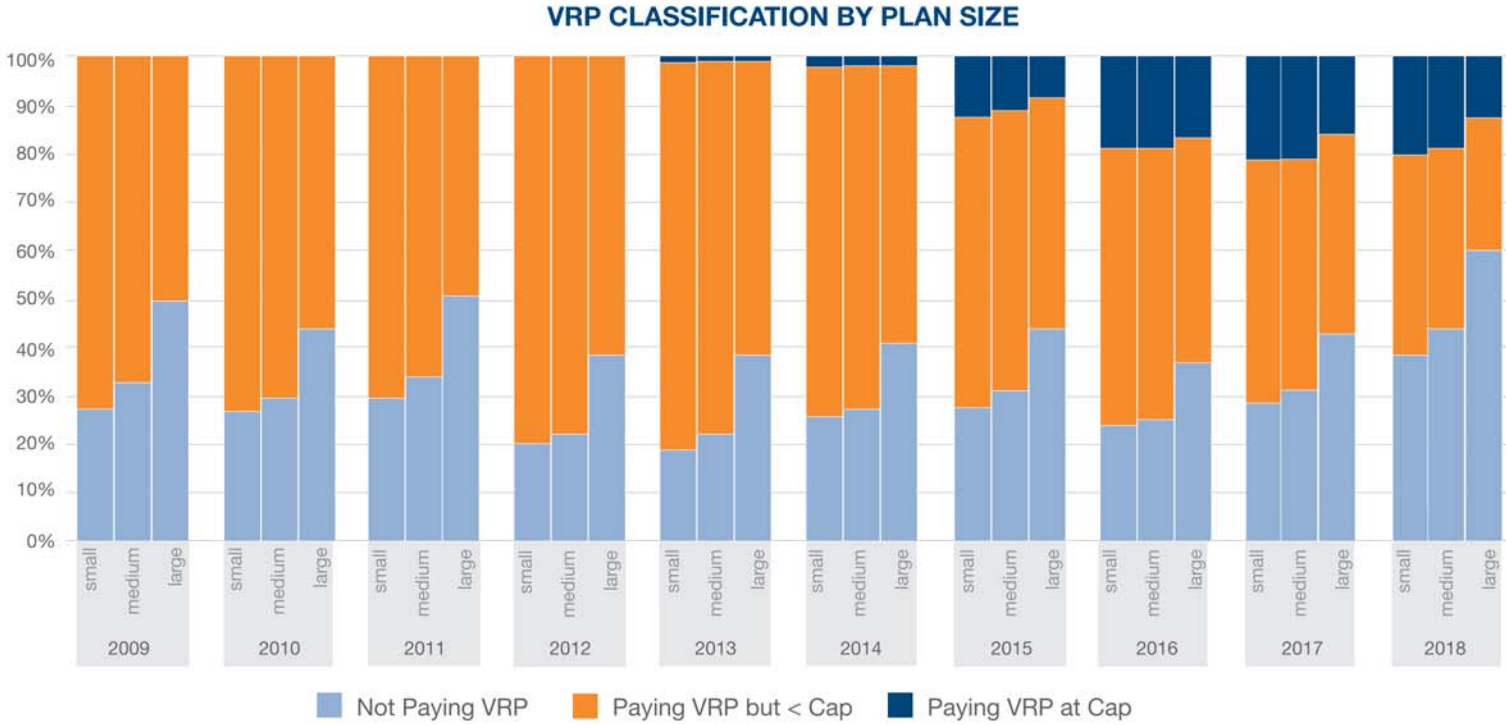
2013 legislation added a "VRP cap" intended to limit premiums for the least well-funded plans. The chart below groups plans as follows: (a) those that did not owe a VRP, (b) those that did owe a VRP but were not affected by the VRP cap, and (c) those affected by the VRP cap:



A minority of plans (as low as 20% in 2013, but more than 40% in 2018), are overfunded and didn't owe any VRP. At the other extreme, 19% of plans saw premiums limited by the VRP cap in 2018 (dark blue bars), a percentage that grew steadily through 2017 before decreasing last year. In general, these plans are not the focus of this paper.

Rather, it is the plans in the middle (orange bars), about 40% of plans in 2018 (almost 2,000 plans), for whom adopting best practices regarding timing and recording of pension contributions translates to millions of dollars in lower PBGC premiums, as we discuss in Section 2.

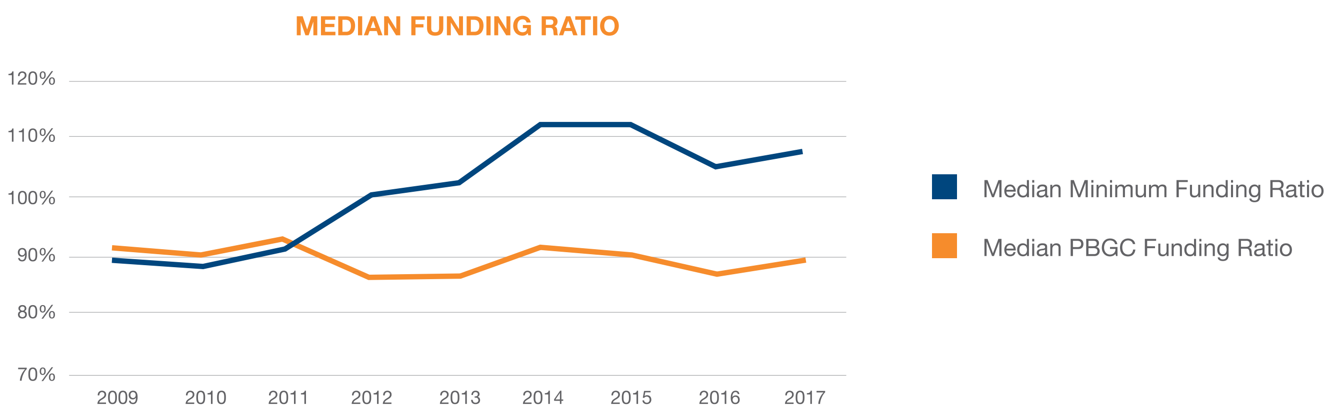
The graphs below break down the same classification by plan size:



Large plans are better funded than others; in 2018, 60% of large plans avoided the VRP altogether, while only 14% of such plans were severely underfunded and subject to the VRP cap. Among plans of all sizes, 30%-40% are still in the middle – these are the plans that stand to benefit from adopting simple best practices.

PREMIUMS VS CONTRIBUTIONS

Legislation that increased PBGC premiums also provided relief to pension sponsors on minimum funding requirements, allowing plans to measure liabilities using above-market interest rates starting in 2012. Importantly, this relief does not apply to measuring liabilities for VRP purposes. The graph below shows the median funded ratio for our universe of plans since 2009 under these two bases:



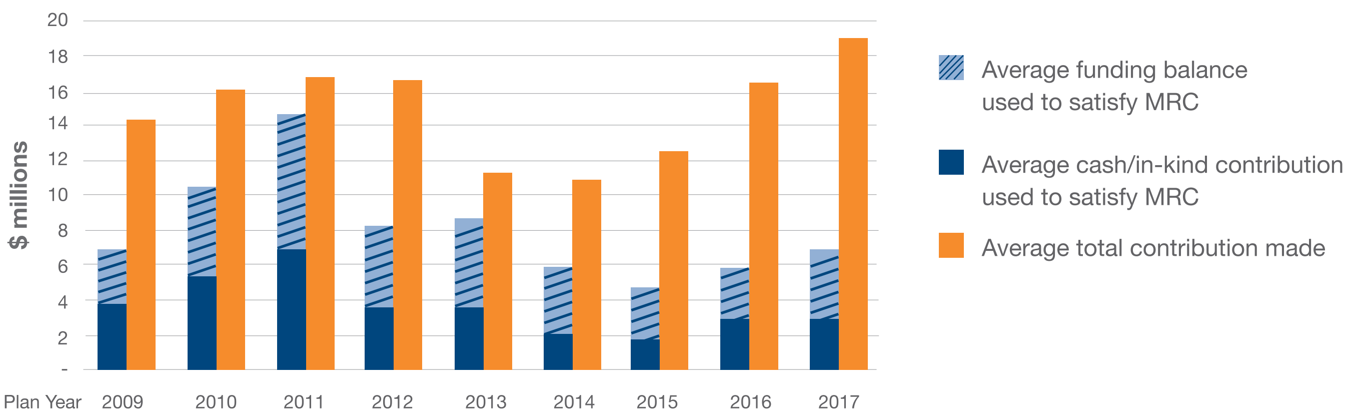
Prior to 2012, the PBGC funding ratio was modestly higher than the minimum funding ratio because the PBGC calculation ignores non-vested benefits. However, since 2012, the ratios diverge by as much as 25%.

This divergence can be a source of confusion for plan sponsors, many of whom find their plans overfunded for minimum funding purposes but underfunded for PBGC purposes. As discussed later in this report, many plan sponsors' funding policies seemed to be focused more on PBGC funding levels than just making minimum required contributions.

HISTORICAL FUNDING PATTERNS

The graph below shows the trend since 2009 in minimum required contributions (MRC), the trend in applying 'funding balances'[2] to meet minimum funding requirements, and the trend in total contributions made by plan year:

AVERAGE CONTRIBUTIONS MADE VERSUS MINIMUM REQUIRED



The blue bars (solid plus shaded) represent required contributions. Between 2009 and 2011, required contributions more than doubled, reflecting the impact of the 2008 stock market crash and subsequent decline in long-term interest rates. Beginning in 2012, funding relief legislation reversed this trend, cutting required contributions almost in half. As we discussed in last year's report, due to tax reform, plan sponsors made additional contributions in 2017 to realize higher tax deductions. 2017 contributions were the highest in any year between 2009 and 2017, with average contributions of more than $19 million and total contributions of $95 billion.

As discussed in previous reports, the chart shows that plan sponsors are using 'funding balances' in part to satisfy funding requirements and also making actual contributions consistently in excess of requirements (roughly 65% of plans annually made voluntary contributions above minimum requirements).

The strategy of using funding balances allows plan sponsors to recognize some pension contributions earlier than they otherwise would for purposes of measuring plan funded status, including the calculation of PBGC premiums.

The pattern in the graph shows how, since 2009, plan sponsors have been more apt to both (a) apply funding balances to satisfy funding requirements (the shaded portion of the blue bar), and (b) make increasingly large voluntary contributions in excess of required amounts. Both trends provide evidence that pension sponsors are improving their ability to tailor a pension funding strategy to a world of mounting PBGC premium costs.

Despite changes in some plan sponsor habits to date, premiums have risen dramatically in recent years. In the next section, we explore in more detail a simple strategy that can reduce premiums for hundreds of plan sponsors, including dramatic savings in some cases.

(We have included an Appendix which provides additional details on data used to create the graphs in this Section 1.)

2017 SPONSOR INCREASE

AVERAGE CONTRIBUTIONS

more than $19 million

with

$95 BILLION TOTAL

2 Funding balances are the sum of the plan's Carryover Balance and Prefunding Balance. They can be created when contributions exceed the minimum required.

SECTION 2

Missed Opportunities Due to Contribution Recording and Timing

In this section, we look at a very specific issue: plans that didn't optimize their contribution recording and timing for PBGC purposes. The discussion is a bit technical, but very important. Most – if not all – plan sponsors rely on guidance in navigating these contribution timing rules. Unfortunately, it appears they are not always receiving the guidance they need in this regard. As a result, hundreds of plans are failing to take simple actions that would reduce premiums.

FOR 2017

accelerating voluntary
year-end contributions

COULD HAVE REDUCED PREMIUMS

by $174 million

Minimizing PBGC premiums depends on plans maximizing the use of 'grace period' contributions – amounts contributed to a plan after the end of the plan year but still attributable to that plan year. This is what we call *best practices*. Failure to adopt best practices around quarterly contribution requirements and applying funding balance has caused plan sponsors to pay higher PBGC premiums than necessary, due to not maximizing and getting full credit for grace period contributions. In many cases, all or part of contributions made to satisfy quarterly contribution requirements could have been characterized as grace period contributions but weren't. So, plans often report lower asset values than they could have – and, as a result, pay higher premiums than they need to.

RECORDING ERRORS

The simplest strategy involves no change in plan funding pattern at all, merely an assessment of plans' abilities to record grace period contributions for the prior year. Sometimes this can't be done – plans that are less than 80% funded must make cash contributions to satisfy funding requirements, and other plans that don't satisfy prior year requirements until the funding deadline (September 15th for most plans) can't record grace period contributions optimally.

Lots of plans could have adopted best practices to reduce premiums by simply recording grace period contributions for the prior year, but failed to do so. We view these "recording errors" as the most egregious failure to adopt best practices for premium management and the easiest to correct.

MODESTLY ACCELERATED FUNDING SCHEDULE

Beyond fixing recording errors, best practices involve modest acceleration of pension contributions to minimize PBGC premiums. In particular, we recommend (for a calendar year plan that was at least 80% funded in the prior year):

- Accelerating quarterly contributions due on October 15 to September 15 and recording those contributions for the prior year.
- Accelerating residual contributions due on September 15 to April 15, which allows plans to record April 15 and July 15 contributions for the prior year.
- Accelerating quarterly contributions due on January 15 to September 15 and recording those contributions for the prior year.
- Accelerating voluntary year-end contributions to September 15 and recording those contributions for the prior year.

The accelerations above are modest – from as little as one month to five months at the most. And, other than voluntary year-end contributions, these contribution amounts are usually known months in advance.

But the payoff to plan sponsors could be huge. Our analysis indicates that failure to adopt these best practices has caused plan sponsors to pay $1.2 billion more in premiums between 2010 and 2017 than they needed to.

PLANS **LESS THAN 80%** FUNDED MUST MAKE CASH CONTRIBUTIONS TO SATISFY FUNDING REQUIREMENTS.

YEAR-END VOLUNTARY CONTRIBUTIONS

More than half of these missed savings ($671 million) are related to accelerating voluntary year-end contributions. Accelerating these contributions can be challenging – often, year-end funding decisions are driven by financial results that are not known three months earlier.

For plans that can make a reasonable estimate of this number and fund the contribution by September 15th, the impact on PBGC premiums can be enormous. For 2017, accelerating voluntary year-end contributions to September 15th could have reduced premiums by $174 million, comprising almost 70% of total missed savings opportunities for the year.

Employers who can manage this stand to reduce their 2019 PBGC premium by 4.3% of the amount contributed, e.g. $4.3 million for a $100 million contribution.

With respect to accelerating voluntary year-end pension contributions, there are some complications. However, given the dollar amounts at stake, we think it is worth employers' time to give some thought to this.

SIMPLE ACCELERATION STRATEGIES

The other acceleration strategies are more straightforward, as they generally involve contribution amounts known well in advance. Among these, accelerating October 15th contributions to September 15th is the easiest – a mere one-month acceleration that produces a near-instant 4.3% "rebate."

For some employers, accelerating required September 15th contributions to April 15th can significantly reduce premiums by freeing up April 15 and July 15 contributions to be recorded for the prior year.

And, accelerating required January contributions to the previous September is very much like the October acceleration, except that it involves bringing forward a contribution by four months rather than one.

BETWEEN 2010 AND 2017

failure to adopt best practices

CAUSED PLAN SPONSORS TO PAY

$1.2 billion

more in premiums

WHILE PLANS IN ALL INDUSTRIES COULD USE SOME IMPROVEMENT IN MANAGING THEIR PBGC PREMIUMS, DATA SHOWS THAT HOSPITALS AND UTILITIES STAND TO GAIN THE MOST.

ANALYSIS OF MISSED SAVINGS OPPORTUNITIES

There is some evidence that sponsors are increasingly adopting best practices in response to higher premium rates, but our analysis indicates that hundreds of plans continue to overpay premiums by more than $100 million annually, with more than half of "eligible" plan sponsors overpaying in some fashion. All because they failed to adopt simple best practices with respect to the recording and timing of plan contributions.

For this analysis, we identified plans from our universe that:

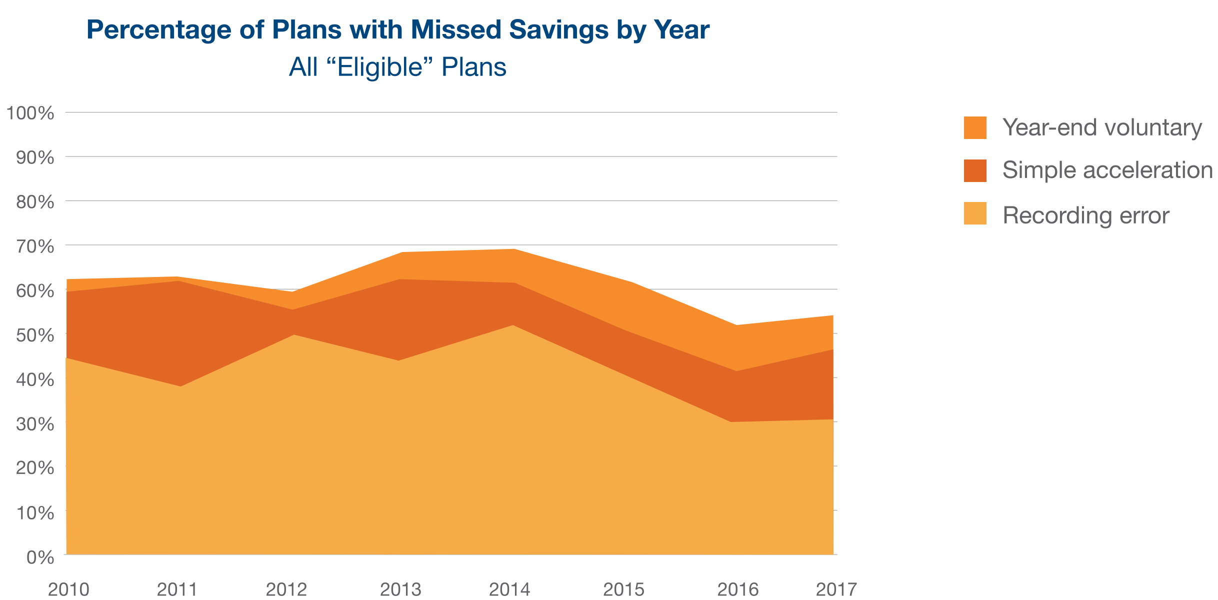
1. Paid a variable rate premium for a plan year, but were not subject to the VRP cap, and
2. Made contributions for the plan year

The number of plans satisfying each of these conditions was as follows:

PLANS "ELIGIBLE" FOR MISSED SAVINGS OPPORTUNITIES								
Year	2010	2011	2012	2013	2014	2015	2016	2017
Plan Count	2,886	2,899	3,257	3,148	2,682	2,015	1,983	1,650

The table shows a downward trend in the number of "eligible" plans since 2012, due in part to an increasing number of plans affected by the VRP cap. (Note that 2016 data is estimated, based on actual figures for calendar-year plans and estimates for non-calendar-year plans.)

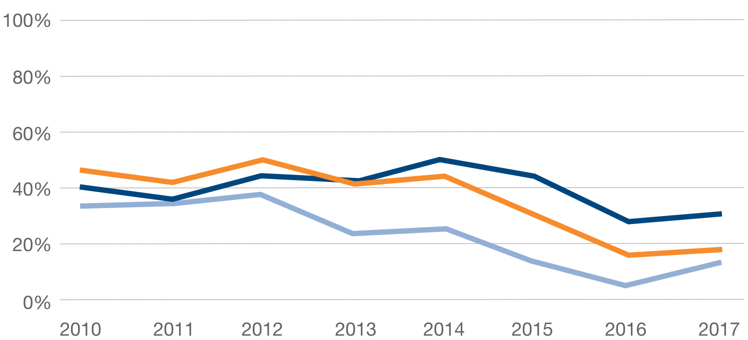
The chart below shows the likelihood of missed savings opportunities by percent of eligible plans and shaded by category of missed opportunity between 2010 and 2017:



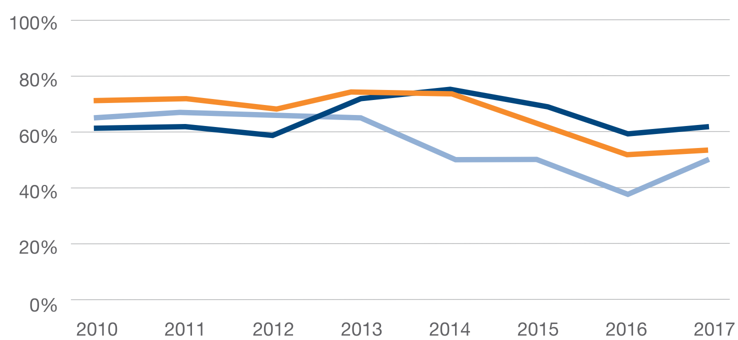
While it is a little perplexing to see new plans missing savings opportunities, the overall trend is encouraging, indicating that more eligible plans are adopting best practices for contribution recording and timing. However, in 2017, 24% of eligible plans continued to make recording errors and more than half of eligible plans could have reduced premiums with modest acceleration of contributions. While plans in all industries could use some improvement in managing their PBGC premiums, data shows that hospitals and utilities stand to gain the most (see inset at end of Section 2).

When we look at the data by plan size, we see that Large plans again appear to be best-attuned to contribution recording and timing strategies. The graphs below show the likelihood of eligible plans missing savings opportunities each year during 2010-2017, with the graph on the left indicating the likelihood of recording errors and the graph on the right showing the likelihood of total missed opportunities.

Percentage of Plans with Missed Savings by Year - Recording Error
All "Eligible" Plans, by Plan Size

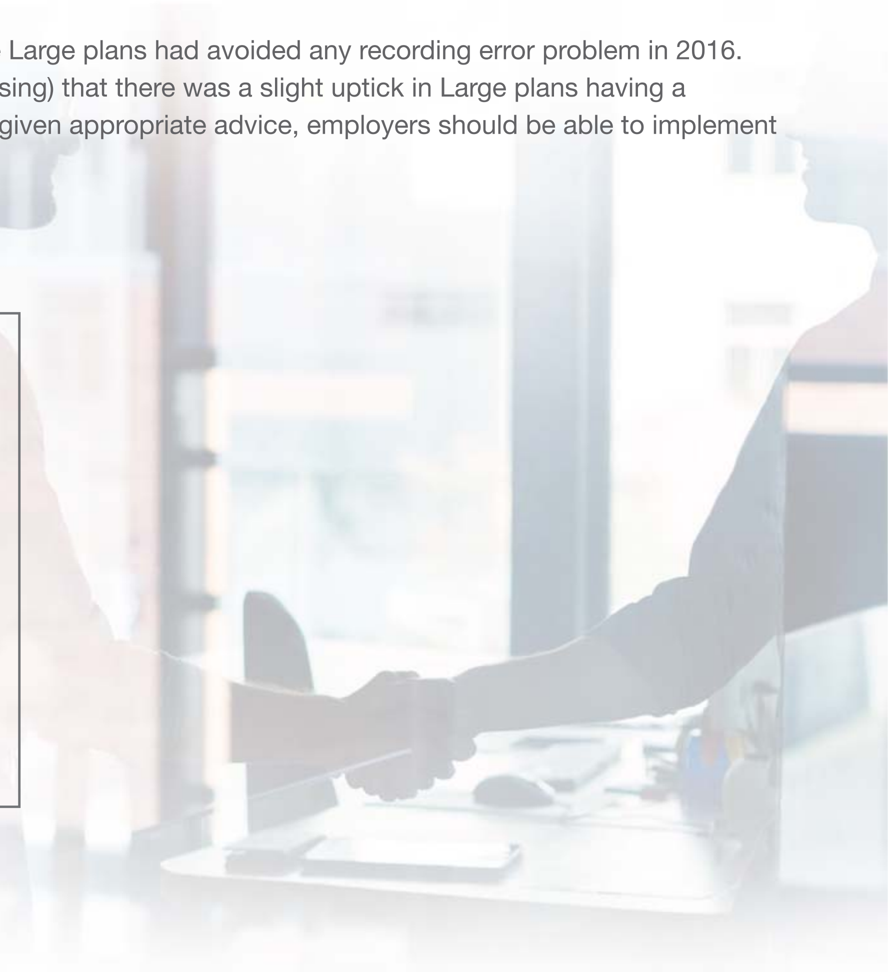


Percentage of Plans with Missed Total Savings by Year
All "Eligible" Plans, by Plan Size



Small Medium Large

On the one hand, it is encouraging that 90% of eligible Large plans had avoided any recording error problem in 2016. On the other hand, it is discouraging (and a little surprising) that there was a slight uptick in Large plans having a recording error in 2017. On the whole this shows that, given appropriate advice, employers should be able to implement best practices.



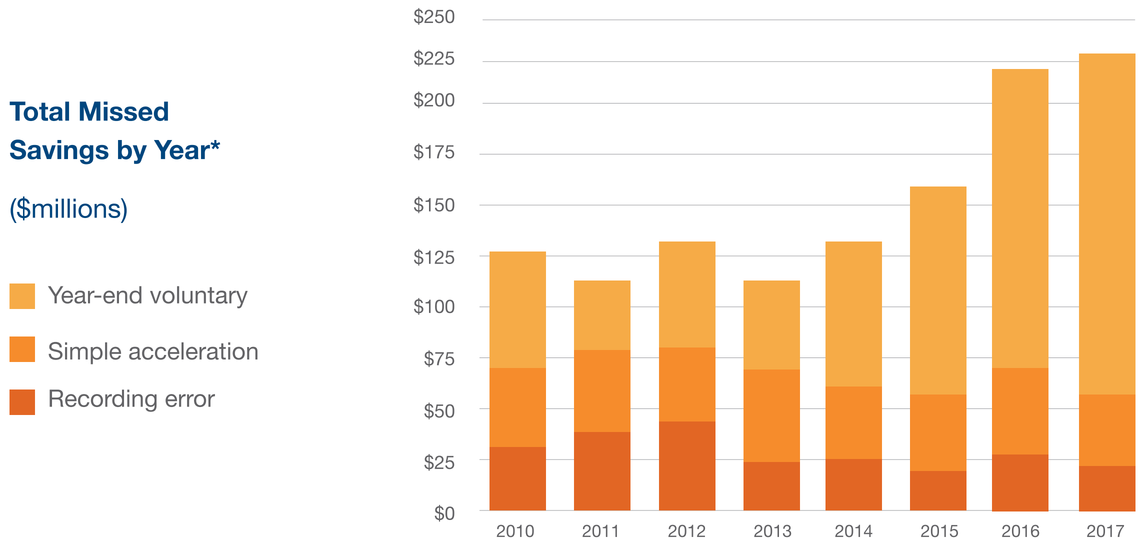
IN 2017

MORE THAN HALF OF ELIGIBLE PLANS

COULD HAVE REDUCED PREMIUMS

with modest acceleration of contributions

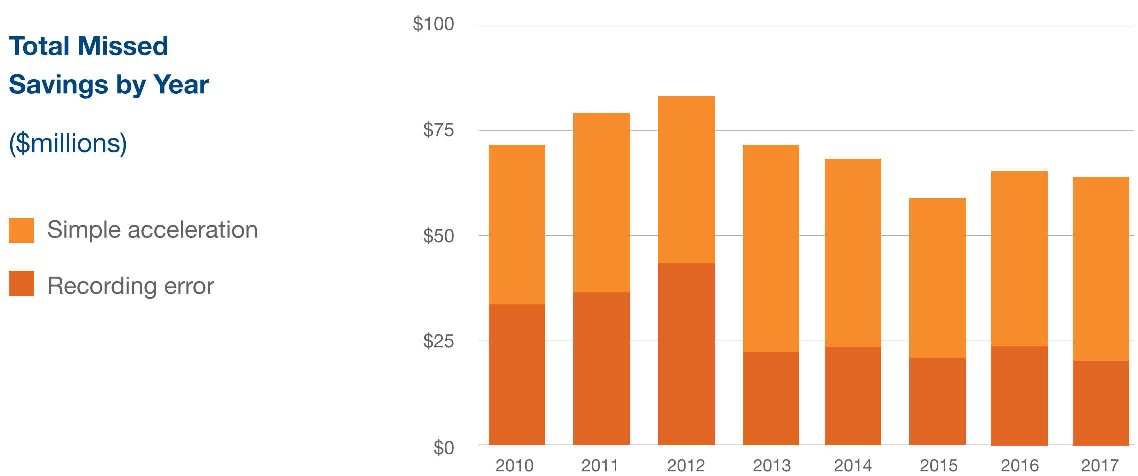
Next, we look at the aggregate dollar amounts of missed opportunities by category and year. The graph below summarizes this information for 2010-2017:



**2017 total missed savings shown above represents projected savings for non-calendar-year plans*

As we mentioned, accelerating voluntary year-end contributions is the most challenging strategy to implement. But even if we ignore this, plans have paid $550 million more in premiums during 2010-2017 that could have been avoided by accelerating known contributions by a couple of months and recording grace period contributions for the prior year.

The graph below ignores the "voluntary year-end contribution" strategy, focusing on the low-hanging fruit for premium reduction. From this, we see that plan sponsors continue to leave more than $50 million in annual savings on the table by not adopting simple best practices:



**2017 total missed savings shown above represents projected savings for non-calendar-year plans*

Recording error opportunities – the true low-hanging fruit here – peaked at $43 million in 2012, although they were still $18 million in 2017. Overpayments associated with simple acceleration strategies have hovered around $40 million per year, with 2017 overpayments of $36 million marking the lowest amount over the past eight years.

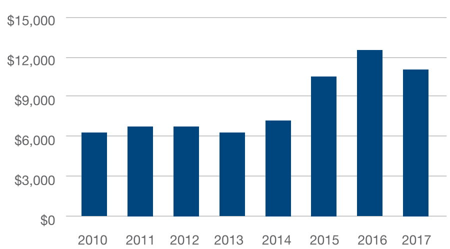
FEWER PLANS OVERPAYING

For 2017, the story can be summed up as: fewer plans are missing savings, but, among plans that continue to miss savings, overpayments are similar and in some cases higher than ever.

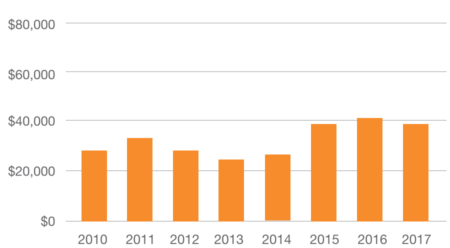
The graphs below express savings opportunities in terms of average dollar amounts for our three plan sizes. Due to scaling issues, we graph Small, Medium, and Large plans separately. From left to right, we are looking at average missed savings based on (a) recording errors, (b) simple acceleration strategies, and (c) acceleration of voluntary year-end contributions:

AVERAGE MISSED SAVINGS - RECORDING ERROR

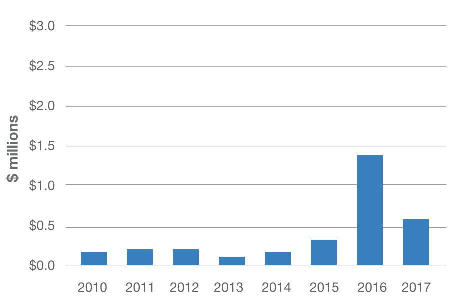
Eligible Small Plans with Missed Savings



Eligible Medium Plans with Missed Savings

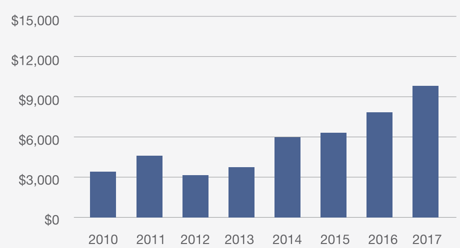


Eligible Large Plans with Missed Savings

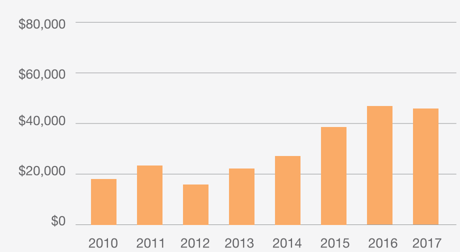


AVERAGE MISSED SAVINGS - SIMPLE ACCELERATION

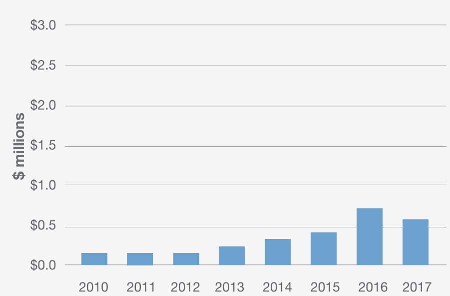
Eligible Small Plans with Missed Savings



Eligible Medium Plans with Missed Savings

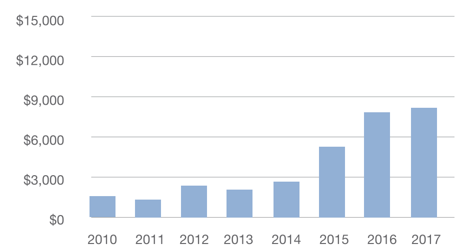


Eligible Large Plans with Missed Savings

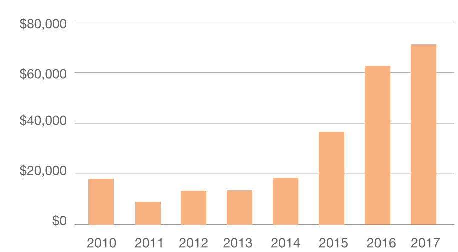


AVERAGE MISSED SAVINGS - YEAR-END VOLUNTARY

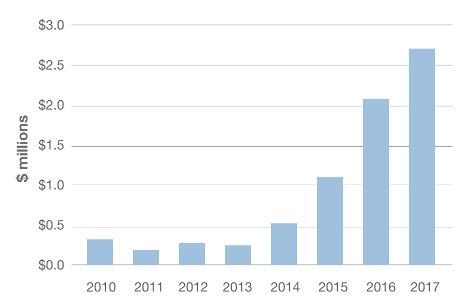
Eligible Small Plans with Missed Savings



Eligible Medium Plans with Missed Savings



Eligible Large Plans with Missed Savings



Earlier, we mentioned the encouraging statistic that only 13% of Large employers overlooked recording errors in 2017. Here we see that, for the small number of Large employers (only 15 plans in total) that did make such errors, the oversight was expensive. While not on average as high as 2016, these 15 plans missed $600,000 apiece on average due to recording errors.

A bigger group of Large plans (about 50 in total) continued to miss simple acceleration opportunities, costing them more than $500,000 each in 2017 premiums.

The pattern is repeated for both recording errors and acceleration strategies and occurs among plan sponsors of all sizes. The higher cost of not adopting best practices is not surprising, considering the continued increase in premium rates that sponsors are saddled with.

Among Small plans that missed opportunities, recording errors cost employers less in 2017 – about $11,000 each on average for almost 200 (down from 300 in 2016) such plans. Plans of this size can ill afford this kind of overhead, particularly where it is so easy to avoid.

Failure to adopt simple acceleration strategies (e.g. ignoring voluntary year-end contributions) was also costly for this group, producing additional missed savings of $9,000 per plan for hundreds of plans.

Similarly, about 100 Medium plans paid more than they needed to in 2017 (about $38,000 apiece on average) due to recording errors, while even more Medium plans paid another $40,000 more than needed due to failure to adopt simple acceleration strategies.

Inability to accelerate voluntary year-end contributions has cost employers more than $100 million per year in premiums over each of the past three years.

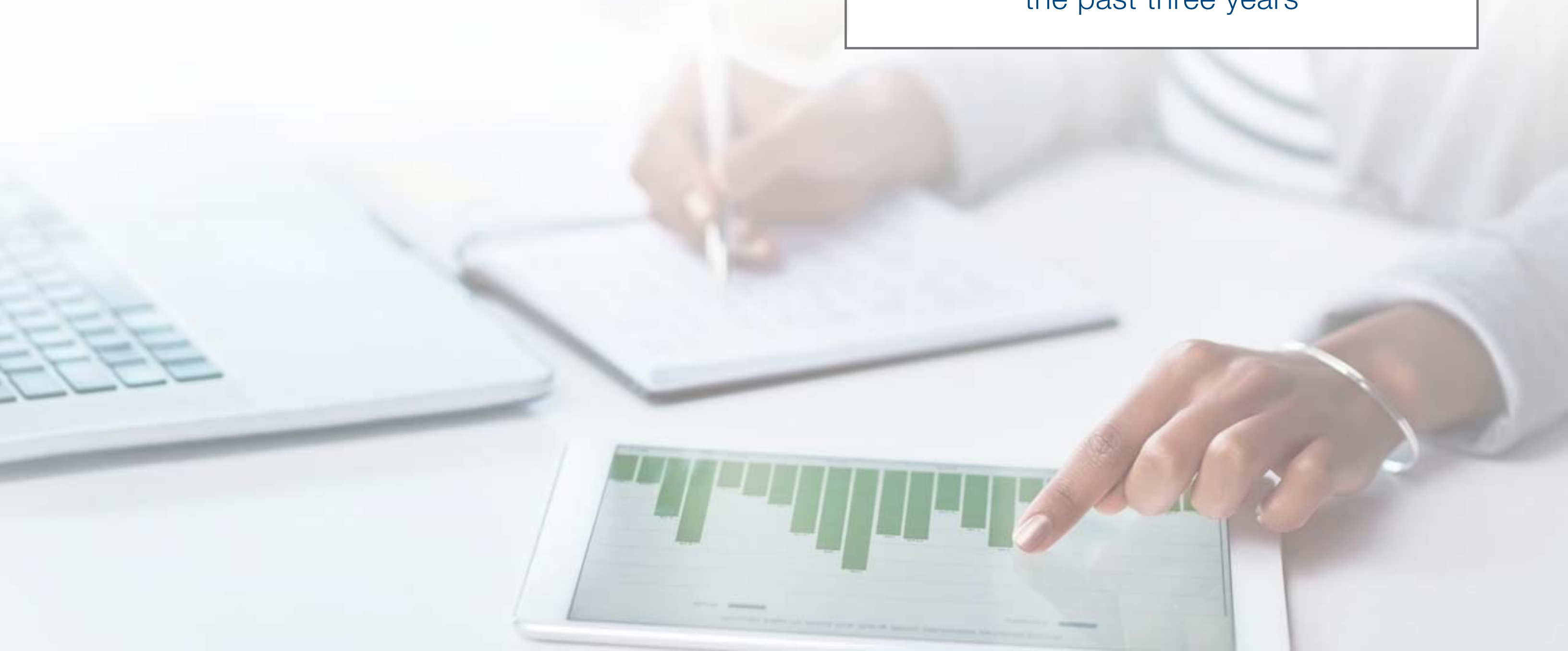
There is room for wider adoption of best practices here, and the stakes keep going up.

YEAR-END CONTRIBUTIONS

INABILITY TO ACCELERATE HAS COST EMPLOYERS

MORE THAN
$100 MILLION PER YEAR

in premiums over each of the past three years



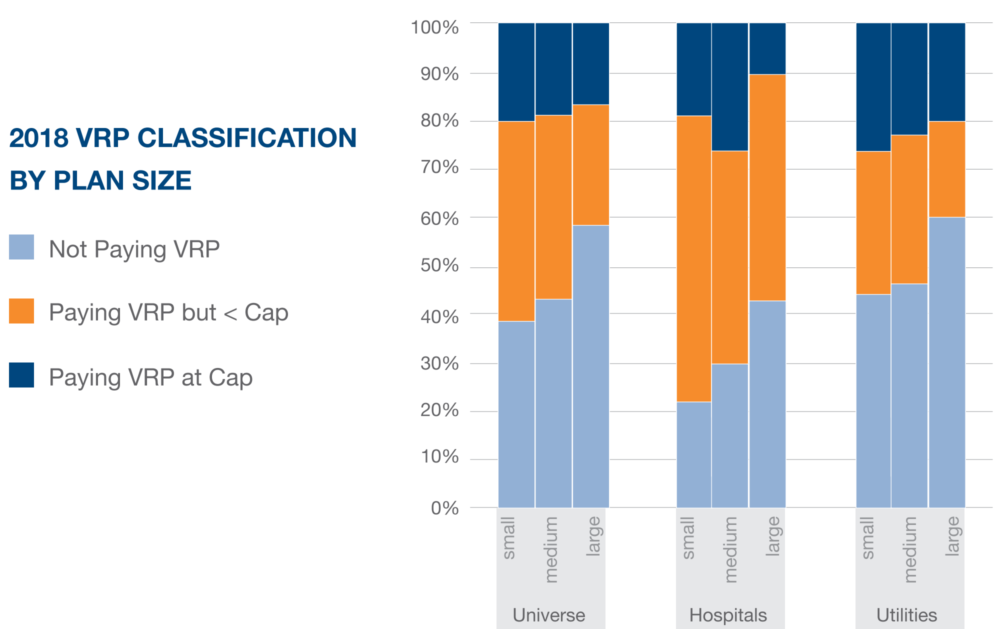
INDUSTRY FOCUS: HOSPITALS AND UTILITIES

The prevalence of pensions, and the impact of PBGC premiums, differs across industries. Our analysis has identified two industries – hospitals and utilities – that make up a meaningful share of the pension universe and present some interesting issues.

Hospitals represent about 10% of our universe in terms of participants but only 5% in terms of liabilities, implying that average benefits are about half the average for our universe.

Utilities are the reverse of this, comprising just over 4% of total participants but more than 8% of liabilities, implying benefits about twice the average for our universe.

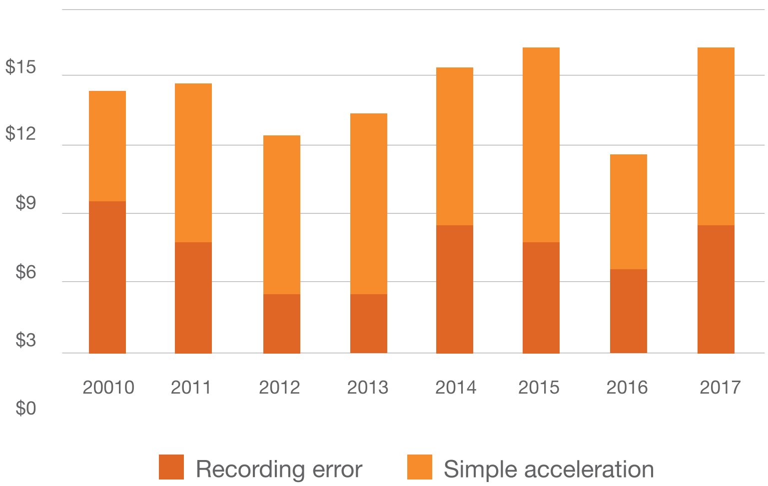
Overall, hospital plans are less well-funded and utility plans are slightly better funded than our universe. The chart below illustrates the breakdown by size and 2018 VRP classification for our universe and these two industries:



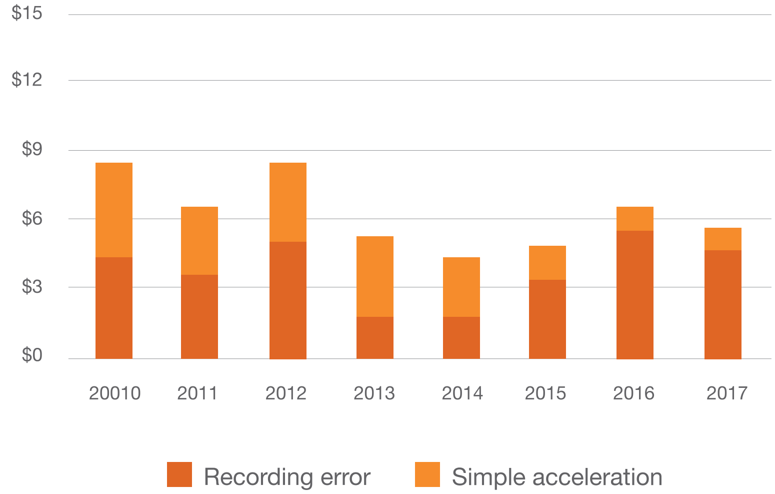
As discussed in Section 2 of this report, the orange bars (“paying VRP but < Cap”) represent plans that are “eligible” to benefit from adopting simple best practices for recording and timing of contributions. Hospitals are significantly more likely than other employers to find themselves in this position, comprising 15% of all plans that stand to benefit from best practices, and the pattern holds across plans of all sizes. Utilities of all sizes, on the other hand, are significantly less likely to be affected – comprising just over 2% of candidates for best practices.

The graphs below show the pattern of missed savings in these two industries (ignoring the impact of voluntary year-end contributions) since 2010:

TOTAL MISSED SAVIN . S BY YEAR-HOSPITALS *
($ millions)



TOTAL MISSED SAVIN .S BY YEAR- < ; 0 3 0 ; 0 , : *
($ millions)



**2017 total missed savings shown above represents projected savings for non-calendar-year plans*

Since there are many more “eligible” hospital plans than utilities, it is not surprising that missed opportunities in this industry have run consistently higher than for utilities. More surprising is that total missed opportunities in this industry have continued to grow over time, bucking the declining trend for the universe shown in Section 2. This may be due in part to financial challenges peculiar to hospitals in recent years.

2017 shows an alarming increase in recording errors for hospitals – $5.4 million, or 29% of all recording errors for our universe. Since these costs require very little effort to avoid, they represent a simple way for affected hospitals to reduce pension overhead.

IN 2017

hospitals and utilities missed

$9.9 million

IN PREMIUM SAVINGS

representing 54%
of total recording errors

Simple acceleration strategies could have saved hospitals another $8.1 million in 2017, for total missed savings of $13.5 million. This represents 25% of total missed savings for the universe. Given that hospitals are only 15% of plans in the “eligible” universe, this underscores how relatively valuable adopting best practices would be for the hospital industry.

Utilities are less affected, but recall that comparatively few utilities are “eligible” to adopt best practices to reduce PBGC premiums. Also, the historical pattern of missed savings for utilities is declining since 2010, like the pattern for our universe.

However, total missed savings for utilities have crept up since 2014, and the increase is almost entirely due to increased recording errors, which have totaled $12.9 million during 2015-2017, including $4.5 million in 2017 (25% of all recording errors for our universe, for an industry comprising just 2% of the universe of eligible plans).

Together, hospitals and utilities missed $9.9 million in premium savings due to recording errors in 2017, representing 54% of total recording errors for the eligible universe.

The graph below compares 2017 experience for plans of different sizes:

These graphs show us that, for affected hospitals, the cost of missed opportunities lines up with the experience of the average plan in our universe. The real issue for hospitals is that they disproportionately fail to adopt best practices, and this pattern is consistent over hospitals of all sizes.

For utilities, recall that most utilities are not even eligible to reduce premiums by adopting best practices (more than half of utilities pay no VRP, and a significant percentage have premiums capped), but for the small number of eligible plans that fail to adopt best practices, the cost is about 3 times as much as the average plan in the universe, a pattern that holds across plans of all sizes, and missed recording errors account for almost all of this difference.

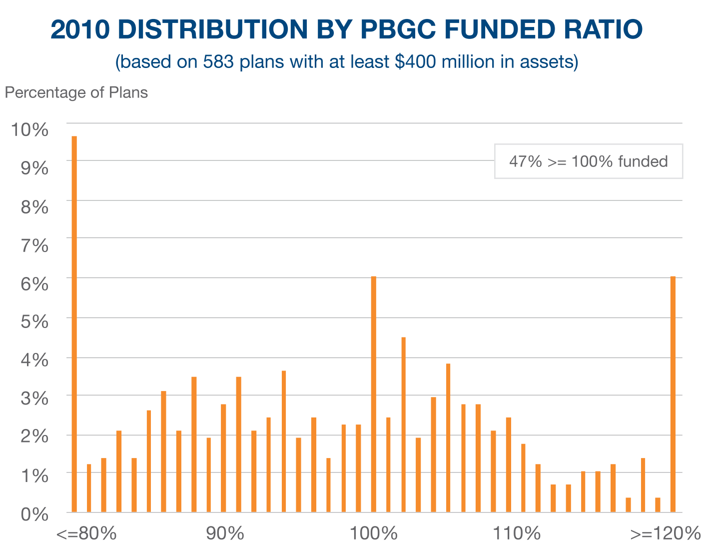
SECTION 3
OTHER TRENDS IN MANAGING PREMIUMS

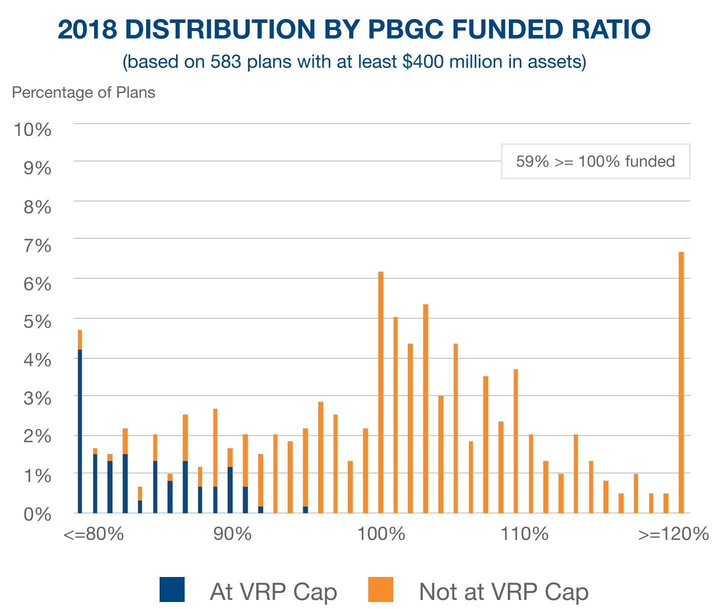
PREMIUMS ARE INCREASINGLY DRIVING FUNDING DECISIONS

We have observed that Large pension plans have been quicker to respond to the rising PBGC premium burden than others. In general, Large plans have been relatively successful in funding pension shortfalls voluntarily, and in adopting best practices for timing and recording of pension contributions.

This should not be surprising. Large employers have more sophisticated internal resources and access to the best external advice to pursue optimal strategies. In our view, other sponsors can look to these Large plans as a model for their own behavior.

The graphs below focus on many of the largest single-employer plans in America – 583 plans in our data for all years 2010-2018 with at least $400 million in assets for 2018, excluding plans chronically below 80% or above 120% funded. The first graph shows the distribution of these plans by "PBGC Funded Ratio" (plan assets divided by PBGC Funding Target) in 2010, and the second graph looks at the same ratio in 2018:





OBSERVATIONS:

- In 2018, 16% of these plans saw PBGC premiums limited by the VRP cap. This means that these plans cannot reduce PBGC premiums by making additional contributions, in effect discouraging these plans from making greater contributions than required.

- The median funded status for this group increased from 98% in 2010 to 101% in 2018. As mentioned before, given poor asset returns during 2018, we expect the median funding level to dip below 100% for 2019.

- The 2010 distribution was fairly uniform between 85% and 110% funding levels, while the 2018 distribution is skewed toward overfunding. For example, 29% of these plans were funded between 100% and 105% in 2018, compared to just 18% in 2010.

- None of this could have been predicted from minimum funding rules. Clearly, more and more employers are using the PBGC Funding Target as a de facto funding threshold, which should not be surprising given the penalty for underfunding is 3.8% in 2018, 4.3% in 2019, and at least 4.4% in 2020 (for plans not subject to the VRP cap).

For our larger 5,000 plan universe, total contributions made for the 2017 plan year were $95 billion, a 19% increase over the $80 billion contributed for 2016 and 39% higher than the $68 billion contributed for 2015. Much of this activity is a response to soaring PBGC premiums, although 2017 activity was likely related to the decline in corporate tax rates in 2018 as well.

OTHER PREMIUM MANAGEMENT STRATEGIES

Plan sponsors have been busily settling liabilities over the past several years, via lump sum windows for deferred vested participants and annuity purchases for retired lives. Since 2012, millions of participants have been removed from the pension system in this way.

Higher PBGC premiums are part of the motivation for this trend. Headcount premiums ($80 per participant in 2019, increasing in the future) can create significant overhead costs, particularly for participants with small benefits.

Plans that are at the VRP cap benefit massively from reducing headcounts, since they save $621 in 2019 premiums for each participant settled in 2018. Because of funding relief, many of these plans can maintain an 80% funding level while pursuing settlements of plan liabilities.

Other more complicated strategies, such as splitting plans in two based on the level of individual participant underfunding, are also useful in some cases in reducing premiums – and creating opportunities for voluntary contributions to reduce premiums further.

We expect these trends to continue in 2019 and beyond.

IN 2019

Headcount premiums are

$80 per participant

AND WILL INCREASE

in the future

FINAL **THOUGHTS**

Under current law, PBGC premium rates will continue to increase in the future. Pension sponsors that make use of the entire suite of strategies for managing higher premium rates will manage this burden most effectively, while those that don't will continue to suffer huge headwinds due to these premiums. Poor asset performance in 2018 will not help the situation. Plan sponsors will need to continue to look seriously at ways to reduce premiums.

Accelerating funding has already played a huge role in limiting the impact of higher premium rates.

Reducing headcounts and splitting plans can also be helpful in managing premiums, particularly for plans at the VRP cap.

However, the best practices discussed in section 2 can also take a meaningful bite out of premiums, and they can do so for a fraction of the effort associated with other strategies. Sponsors who aren't applying best practices here should consider this as a simple first step.

SECTION 4
Appendix

The following exhibits provide additional detail on the data used to provide statistics in Section 1.

Our universe includes single-employer plans with at least 250 participants in 2016 or 2017. For breakdown by plan size, we define “Small” plans as those with 250-999 participants, “Medium” plans as those with 1,000-9,999 participants, and “Large” plans as those with at least 10,000 participants.

Plans are recharacterized by plan size based on population every year between 2009-2018.

2018 numbers shown only represent plans that have filed 2018 PBGC forms by mid-October 2018.

EXHIBIT 1: NUMBER OF PLANS – BY PLAN SIZE

YEAR	SMALL	MEDIUM	LARGE	TOTAL
2009	1,907	1,917	464	4,288
2010	1,972	1,949	482	4,403
2011	2,021	1,992	483	4,496
2012	2,085	2,015	484	4,584
2013	2,163	2,039	482	4,684
2014	2,235	2,068	471	4,774
2015	2,338	2,090	461	4,889
2016	2,473	2,105	466	5,004
2017	2,353	1,979	444	4,776
2018	1,675	1,587	354	3,616

EXHIBIT 2: TOTAL NUMBER OF PARTICIPANTS (IN THOUSANDS) – BY PLAN SIZE

YEAR	SMALL	MEDIUM	LARGE	TOTAL
2009	1,036	6,187	18,436	25,658
2010	1,058	6,250	19,080	26,388
2011	1,068	6,416	19,185	26,669
2012	1,098	6,499	19,184	26,545
2013	1,135	6,587	19,822	26,781
2014	1,168	6,693	18,444	26,545
2015	1,205	6,695	17,991	26,306
2016	1,255	6,645	17,507	25,407
2017	1,200	6,224	16,375	20,799
2018	869	4,991	13,190	19,050

EXHIBIT 3: VRP CLASSIFICATION – BY PLAN SIZE

SMALL

YEAR	NOT PAYING VRP	PAYING VRP BUT < CAP	PAYING VRP AT CAP	TOTAL
2009	540	1,367	0	1,907
2010	548	1,424	0	1,972
2011	615	1,406	0	2,021
2012	424	1,661	0	2,085
2013	415	1,726	22	2,163
2014	576	1,611	48	2,235
2015	652	1,391	295	2,338
2016	637	1,383	453	2,473
2017	731	1,144	478	2,353
2018	654	695	326	1,675

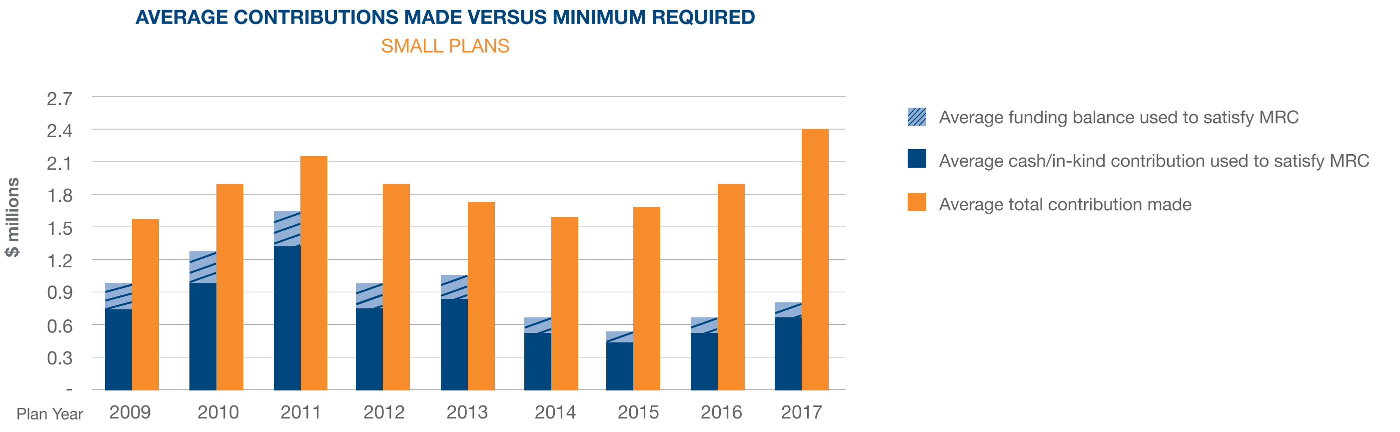
MEDIUM

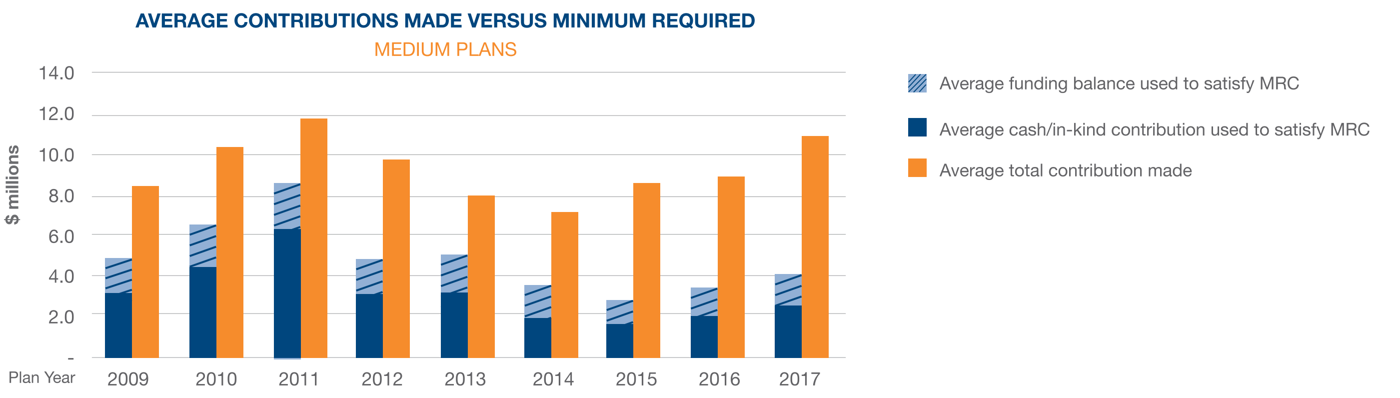
YEAR	NOT PAYING VRP	PAYING VRP BUT < CAP	PAYING VRP AT CAP	TOTAL
2009	643	1,274	0	1,917
2010	585	1,364	0	1,949
2011	682	1,310	0	1,992
2012	448	1,567	0	2,015
2013	455	1,572	12	2,039
2014	567	1,467	34	2,068
2015	660	1,200	230	2,090
2016	551	1,176	378	2,105
2017	652	925	402	1,979
2018	713	588	286	1,587

LARGE

YEAR	NOT PAYING VRP	PAYING VRP BUT < CAP	PAYING VRP AT CAP	TOTAL
2009	231	233	0	464
2010	212	270	0	482
2011	245	238	0	483
2012	187	297	0	484
2013	185	294	3	482
2014	192	271	8	471
2015	204	220	37	461
2016	174	216	76	466
2017	196	179	69	444
2018	213	96	45	354

EXHIBIT 4: AVERAGE CONTRIBUTIONS MADE VERSUS MINIMUM REQUIRED CONTRIBUTIONS (MRC) – BY PLAN SIZE





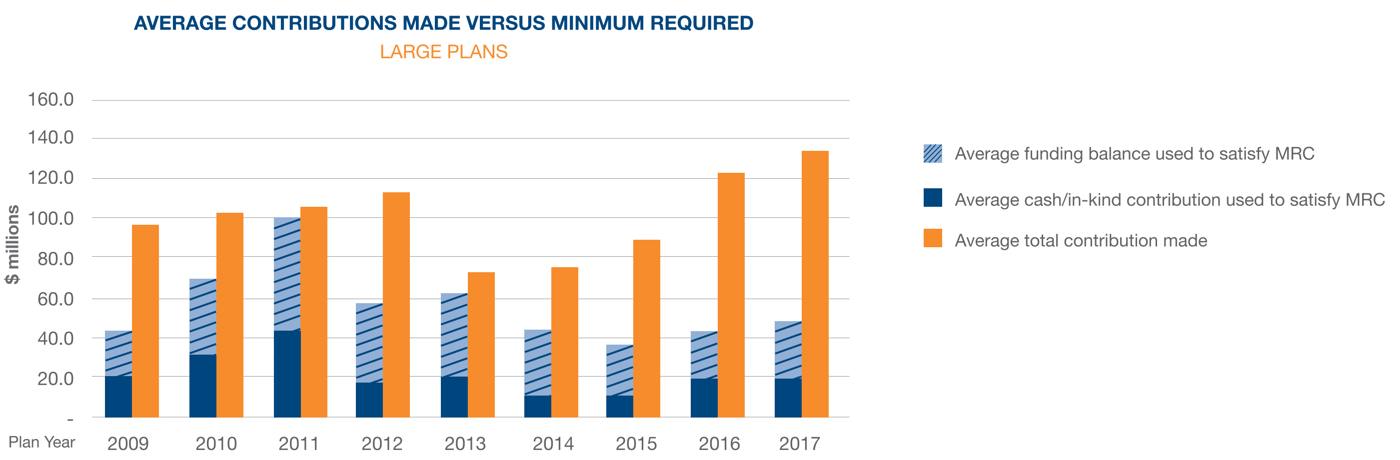


EXHIBIT 5: AVERAGE CONTRIBUTIONS MADE VERSUS MINIMUM REQUIRED CONTRIBUTIONS – BY CATEGORY

	PERCENTAGE OF PLANS							
	2010	2011	2012	2013	2014	2015	2016	2017
1. No Minimum Required Contribution								
a. No Contributions Made	6%	3%	9%	13%	21%	26%	21%	19%
b. Made Cash/In-Kind Contribution	4%	2%	18%	13%	27%	29%	26%	22%
c. Subtotal	10%	6%	27%	26%	47%	55%	47%	41%
2. Made Only Minimum Required Contribution								
a. Used Only Funding Balances	9%	8%	7%	9%	8%	6%	7%	9%
b. Used Only Contribution	7%	8%	6%	5%	4%	3%	3%	3%
c. Used Both Funding Balance and Contributions	8%	6%	2%	4%	2%	2%	3%	3%
d. Subtotal	23%	22%	15%	18%	14%	11%	13%	15%
3. Had Minimum Required but Made Excess Contributions								
a. Made Only Cash/In-Kind Contribution	42%	46%	43%	41%	24%	23%	28%	30%
b. Used Both Funding Balance and Contributions	24%	26%	15%	15%	14%	11%	11%	14%
c. Subtotal	66%	72%	57%	56%	38%	34%	39%	44%
4. Total Plans	100%	100%	100%	100%	100%	100%	100%	100%

EXHIBIT 6: NUMBER OF PLANS WITH TOTAL PBGC PREMIUMS AS A PERCENT OF ASSETS – BY PLAN SIZE

SMALL

YEAR	LESS THAN 0.25%	BETWEEN 0.25% AND 0.50%	BETWEEN 0.50% AND 0.75%	GREATER THAN 0.75%	TOTAL
2009	897 (48%)	627 (33%)	246 (13%)	104 (6%)	1,874
2010	965 (49%)	704 (36%)	207 (11%)	83 (4%)	1,959
2011	1,154 (57%)	633 (31%)	159 (8%)	70 (3%)	2,016
2012	907 (44%)	791 (38%)	299 (14%)	86 (4%)	2,083
2013	939 (44%)	801 (37%)	304 (14%)	110 (5%)	2,154
2014	1,000 (45%)	693 (31%)	352 (16%)	188 (8%)	2,233
2015	822 (33%)	493 (21%)	435 (19%)	575 (25%)	2,325
2016	688 (28%)	364 (15%)	405 (17%)	954 (40%)	2,421
2017	776 (33%)	320 (14%)	336 (14%)	886 (38%)	2,318
2018	660 (41%)	264 (16%)	212 (13%)	492 (30%)	1,628

MEDIUM

YEAR	LESS THAN 0.25%	BETWEEN 0.25% AND 0.50%	BETWEEN 0.50% AND 0.75%	GREATER THAN 0.75%	TOTAL
2009	1,062 (56%)	611 (32%)	178 (9%)	57 (3%)	1,908
2010	1,117 (58%)	650 (33%)	136 (7%)	39 (2%)	1,942
2011	1,349 (68%)	527 (26%)	87 (4%)	29 (1%)	1,992
2012	1,085 (54%)	715 (36%)	164 (8%)	48 (2%)	2,012
2013	1,116 (55%)	722 (35%)	153 (8%)	46 (2%)	2,037
2014	1,120 (54%)	644 (31%)	225 (11%)	77 (4%)	2,066
2015	831 (40%)	547 (26%)	379 (18%)	325 (16%)	2,082
2016	661 (32%)	357 (17%)	419 (20%)	643 (31%)	2,080
2017	734 (38%)	317 (16%)	323 (17%)	577 (30%)	1,951
2018	763 (49%)	270 (17%)	222 (14%)	310 (20%)	1,565

LARGE

YEAR	LESS THAN 0.25%	BETWEEN 0.25% AND 0.50%	BETWEEN 0.50% AND 0.75%	GREATER THAN 0.75%	TOTAL
2009	332 (72%)	90 (20%)	25 (5%)	11 (2%)	458
2010	343 (71%)	107 (22%)	20 (4%)	11 (2%)	481
2011	383 (79%)	79 (16%)	15 (3%)	6 (1%)	483
2012	356 (74%)	100 (21%)	21 (4%)	7 (1%)	484
2013	355 (74%)	103 (21%)	16 (3%)	8 (2%)	482
2014	323 (69%)	115 (24%)	23 (5%)	7 (1%)	470
2015	252 (55%)	118 (26%)	54 (12%)	36 (8%)	460
2016	210 (45%)	107 (23%)	71 (15%)	75 (16%)	463
2017	229 (52%)	91 (21%)	61 (14%)	61 (14%)	442
2018	234 (67%)	50 (14%)	45 (13%)	22 (6%)	351

ABOUT OCTOBER THREE

In an industry where confusion and skepticism run high, October Three is building a refreshingly new approach – one based on innovation, understanding and transparency. We believe that by shedding light on alternative solutions in the Defined Benefit arena, we can help our clients move from a sense of powerlessness and negativity to one of empowerment.

A primary focus of the consultants at October Three is the design and administration of comprehensive retirement benefits for employees that minimize the financial risks and volatility concerns employers face. Through effective plan design strategies, October Three believes successful financial outcomes are achievable for employers and employees alike.

OCTOBER THREE®

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See Separate Hard Copy

For Confidential Exhibit JKS-3

Exhibit JKS-4

IN THE TENNESSEE PUBLIC UTILITY COMMISSION
AT NASHVILLE, TENNESSEE

IN RE:	)	
	)	
ATMOS ENERGY CORPORATION	)	
ANNUAL RECONCILIATION OF	)	**DOCKET NO. 19-00076**
ANNUAL REVIEW MECHANISM	)	
	)	

CONSUMER ADVOCATE'S RESPONSE TO ATMOS ENERGY CORPORATION'S FIRST DISCOVERY REQUEST

Comes the Consumer Advocate Unit of the Office of the Attorney General (Consumer Advocate) and hereby responds to the First Discovery Requests of Atmos Energy Corporation (Atmos Energy) to the Consumer Advocate filed on February 24, 2020. Each of the three discovery requests are set out on separate pages for ease of use for Atmos Energy and Staff with the Tennessee Public Utility Commission (TPUC or Commission).

Atmos Energy Annual Reconciliation
TPUC Docket No. 19-00076
Atmos Energy's First Discovery Request
Date Issued: February 24, 2020

1-1. Refer to Page 11 of the Direct Testimony of William H. Novak. Mr. Novak excluded all pension funding in the current ARM reconciliation. In what future ARM proceeding, if any, does the Consumer Advocate contend that the Company should reflect that $15.5 million in pension funding?

RESPONSE:

The Tennessee portion of the $15.5 million funding, or $824,764 would not be reflected in any future ARM filing under the Consumer Advocate proposal as the funding did not meet the established TPUC standards for inclusion in rates.

Response provided by the Consumer Advocate on March 16, 2020.

Atmos Energy Annual Reconciliation
TPUC Docket No. 19-00076
Atmos Energy's First Discovery Request
Date Issued: February 24, 2020

1-2. Refer to the Company's response to CPAD DR Question No. 4-01. In addition, refer generally to the Direct Testimony of William H. Novak. Atmos Energy explained in its response to CPAD DR Question No. 4-01 that it made additional contributions to avoid the Pension Benefit Guaranty Corporation (PBGC) variable rate premium (VRP). Mr. Novak's Direct Testimony does not discuss VRP.

a. Does the Consumer Advocate contest the Company's assertion that but for its pension contributions, it would have had to pay VRP to the PBGC?

b. Had the Company declined to make pension contributions in excess of the minimum required contribution level and in turn had to pay VRP to the PBGC, would such VRP be properly recoverable as a just and reasonable expense? Explain your rationale.

RESPONSE:

a. The Consumer Advocate has no independent knowledge of that fact. It does acknowledge that a Willis Towers Watson slide provided in response to Consumer Advocate 3-1 references the avoidance of PBGC variable rate premiums.

b. The question does not contain sufficient information to respond. Additional factors that may impact recoverability of PBGC premiums include the following; (i) extent to which plan changes/modifications on employee eligibility and benefits has impacted net liabilities; (ii) which stakeholder should bear the risk of under-performance of market returns compared with actual; and (iii) the history of Atmos pension contributions. The recoverability of PBGC premiums would depend upon the response to these questions.

Response provided by the Consumer Advocate on March 16, 2020.

Atmos Energy Annual Reconciliation
TPUC Docket No. 19-00076
Atmos Energy's First Discovery Request
Date Issued: February 24, 2020

1-3. Refer to the Company's response to CPAD DR Question No. 4-03. In addition, refer generally to the Direct Testimony of William H. Novak. Atmos Energy explained in its response to CPAD DR Question No. 4-03 that future minimum required pension contributions are based, in part, on past contributions. Mr. Novak's Direct Testimony does not discuss the impact of the Company's pension contributions on future years' minimum pension contribution requirement calculations.

Does the Consumer Advocate contest the Company's assertion that future minimum pension contribution requirements will be lower than they otherwise would have been without the pension contributions that Mr. Novak seeks to disallow?

RESPONSE:

No.

Response provided by the Consumer Advocate on March 16, 2020.

Atmos Energy Annual Reconciliation
TPUC Docket No. 19-00076
Atmos Energy's First Discovery Request
Date Issued: February 24, 2020

RESPECTFULLY SUBMITTED,

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CERTIFICATE OF SERVICE

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This the 16th day of March, 2020.

Karen H Stachowski
KAREN H. STACHOWSKI
Assistant Attorney General