

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

January 27, 2021

IN RE:)	
)	
ATMOS ENERGY CORPORATION SHARED)	DOCKET NO.
SERVICE DEPRECIATION STUDY)	20-00012

ORDER APPROVING NEW DEPRECIATION RATES

This matter came before Vice Chairman Herbert H. Hilliard, Commissioner John Hie, and Commissioner David F. Jones of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on December 14, 2020, to consider the *Notice of Filing Depreciation Study and Request for Approval of New Depreciation Rates* (“Notice”) filed by Atmos Energy Corporation (“Atmos” or “Company”) on February 5, 2020.

RELEVANT BACKGROUND AND FILING OF DEPRECIATION STUDY

On February 5, 2020, Atmos filed the *Notice* that included a depreciation study and requested approval of new depreciation rates for the depreciable property employed by the Company’s Shared Services Unit (“SSU”).¹ As a regulated public utility, Atmos must compute depreciation expense for used and useful plant using depreciation rates approved by the Commission, and this expense is ultimately recovered from ratepayers through monthly service charges approved in the Company’s Annual Review Mechanism (“ARM”) filings. According to the Company’s ARM Tariff approved in Commission Docket No. 14-00146, if Atmos performs a

¹ *Notice*, p. 1 (February 5, 2020).

depreciation study recommending new rates, it must obtain Commission approval prior to using the new rates to compute depreciation expense in its subsequent ARM filings.² Based on completion of the depreciation study and related testimony filed in this docket, the Company requested approval to use the study's depreciation rates to compute depreciation expense for its SSU property in its next ARM filing due on February 1, 2021.³

In support of its request for new depreciation rates, Atmos filed the testimony of Dane A. Watson, Partner of Alliance Consulting Group ("Alliance"). Alliance was hired by the Company to perform the depreciation study which was attached to Mr. Watson's testimony as Exhibit DAW-2. Mr. Watson has previously testified before the Commission in several depreciation dockets, including Docket No. 15-00089 in which the Commission approved Atmos's current depreciation rates for its direct Tennessee operations.

The depreciation study was limited to the Company's SSU.⁴ The SSU consists of two divisions, Division 02-General Office and Division 12-Customer Support. These divisions perform support services for Atmos's operating divisions, including the Atmos Kentucky Mid-States Division which encompasses the Company's Tennessee operations.⁵ SSU expenses, including depreciation, are allocated to the Company's various operating divisions. The purpose of the study is to develop depreciation rates for the depreciable property utilized by the SSU in providing support services.⁶ The study examined the SSU's depreciable assets as of the fiscal year ended September 30, 2019.⁷

² *Id.*; See also *Petition of Atmos Energy Corporation for a General Rate Increase Under TCA 65-5-103(A) and Adoption of an Annual Rate Review Mechanism Under TCA 65-5-103(d)(6)*, TPUC Docket No. 14-00146, *Order Approving Settlement*, p. 7 (November 4, 2015).

³ *Notice*, pp. 1-2 (February 5, 2020).

⁴ Dane A. Watson, Pre-Filed Direct Testimony, p. 3 (February 5, 2020).

⁵ *Id.* at Ex. DAW-2, p. 5 of 50.

⁶ *Id.* at Ex. DAW-2, p. 7 of 50.

⁷ *Id.*

The study was performed in four phases. First, historical data was collected to be used in the analysis. This data was compiled from the Company's continuing property records and general ledgers. Additionally, Mr. Watson interviewed personnel and managers responsible for installation, operation, and removal of assets to gain input into the operation, maintenance and salvage of assets. The historical information was used to analyze historical asset activity regarding the service life and salvage value of existing assets.⁸ The second phase consisted of actuarial analysis of the detailed property records information to develop observed life tables for life analysis.⁹ The third phase entailed the evaluation process which synthesized the analysis, interviews, and operational characteristics of assets into a final selection of asset life and net salvage value parameters.¹⁰ The final phase involved calculation of the depreciation rates.¹¹

The computation of rates utilized the straight-line method, equal life group ("ELG") procedure, and remaining-life technique. With this approach, the remaining lives were calculated according to ELG group expectancy techniques using the Iowa Survivor Curves.¹² For each plant account, the difference between the surviving investment, adjusted for estimated net salvage and the allocated book depreciation reserve, was divided by the composite remaining life to yield the annual depreciation expense. Within each group, the sum of the annual depreciation expense divided by the sum of the original plant cost yields the annual depreciation rate.¹³

⁸ *Id.* at Ex. DAW-2, p. 13 of 50.

⁹ *Id.* at Ex. DAW-2, p. 14 of 50.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.* at Ex. DAW-2, p. 10 of 50: The Iowa Curves are the result of an extensive investigation of the life characteristics of physical property made at the University of Iowa in the 1950s which organizes asset retirement dispersions into four broad classes: R Curves where the observed mode age is greater than the average life; L Curves where the observed mode age is less than the average life; S Curves where the observed mode age is about the same as the average life; and O Curves which is a special case of left modal dispersion within the origin modal curve family. Additional numerical designations of 1 through 6 are assigned to describe the relative magnitude of retirement frequencies at the mode, where a 1 indicates asset retirements that are greatly dispersed from the mode while a 6 indicates a small dispersion of retirements about the mode.

¹³ *Id.* at Ex. DAW-2, pp. 19-20 of 50.

The following table presents a summary of the study's recommended depreciation rates by plant account for the Shared Services Unit:

Account	Description	Rate ¹⁴	Years ¹⁵	Life-Curve ¹⁶
39000	Structures & Improvements	2.38%	42.02	50-R2
39009	Improvements - Leased	5.13%	19.49	20-R4
39100	Office Furniture & Equip.	6.60%	15.15	16-R4
39200	Transportation Equipment	6.29%	15.90	15-L2
39400	Tools Shop and Garage	13.04%	7.67	8-S6
39500	Laboratory Equipment	9.70%	10.31	10-R2
39700	Communication Equipment	6.72%	14.88	15-R2
39800	Miscellaneous Equipment	7.24%	13.81	15-S3
39900	Other Tangible Equipment	14.96%	6.68	7-R5
39901	Servers - Hardware	13.30%	7.52	8-R4
39902	Servers - Software	10.63%	9.41	10-R5
39903	Network Hardware	10.34%	9.67	10-R4
39906	PC Hardware	17.92%	5.58	6-S3
39907	PC Software	10.75%	9.30	10-R3
39908	Application Software	7.55%	13.25	15-L1.5

Application of the recommended depreciation rates to the SSU plant in service produces total unallocated annual depreciation expense of \$25.5 million as of September 30, 2019.¹⁷ The total annual SSU depreciation expense will be allocated to the Tennessee jurisdiction using the methodologies approved in the Company's ARM Tariff.

PROCEDURAL HISTORY

Following the filing of the *Notice* on February 5, 2020, there were no petitions to intervene, comments, or objections filed by any interested party. On October 22, 2020, the Hearing Officer issued a *Notice of Filing Deadline* setting a deadline of November 2, 2020 for any petitions to intervene. No petitions to intervene were filed in response of the *Notice of Filing Deadline*.

¹⁴ *Id.* at Ex. DAW-2, Appendix A, Column D.

¹⁵ Computed by dividing 100% by the recommended annual depreciation rate.

¹⁶ *Id.* at Ex. DAW-2, Appendix C.

¹⁷ *Id.* at Ex. DAW-2, Appendix A.

THE HEARING

The hearing in this matter was noticed by the Commission on December 4, 2020 and held during the regularly scheduled Commission Conference on December 14, 2020. The hearing was held electronically via WebEx. Pursuant to Executive Order No. 16 issued by Governor Bill Lee on March 20, 2020, and most recently extended by Executive Order No. 65 issued on October 28, 2020, the Commission was authorized to meet electronically, without a physical quorum. Electronic access to the hearing was made available to the parties and the public. Appearances were made by the following:

Atmos Energy Corporation, Inc.– Erik Lybeck, Esq., Neal & Harwell, PLC, 1201
Demonbreun Street, Suite 100, Nashville, Tennessee, 37203

Mr. Dane A. Watson provided testimony in support of the Company's *Notice*. Members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

FINDINGS & CONCLUSIONS

Based on the presentations of the Company and the evidentiary record as a whole, the Hearing Panel found the annual depreciation rates for the Company's Shared Services Unit identified in Column D of Appendix A to the Depreciation Rate Study filed as Exhibit DAW-2 are just and reasonable. The Hearing Panel therefore voted unanimously to approve the rates and directed the Company to calculate depreciation expense using the newly approved rates in its subsequent ARM filings. It should be noted that due to the relatively small amount of SSU depreciation expense allocated to Tennessee, as well as general professional and regulatory acceptance of the ELG procedure, approval of the study's depreciation rates based on ELG expected service lives is appropriate. However, ELG may not be reasonable for determining depreciation rates in other circumstances where computation of depreciation expense may have a more material impact on monthly service rates, such as the computation of annual depreciation

expense for direct Tennessee operations.

IT IS THEREFORE ORDERED THAT:

1. The *Notice of Filing Depreciation Study and Request for Approval of New Depreciation Rates* filed by Atmos Energy Corporation on February 5, 2020 is approved.

2. Atmos Energy Corporation shall calculate depreciation expense using the newly approved rates herein in its subsequent Annual Review Mechanism filings.

3. Any party aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within fifteen (15) days from the date of this Order.

4. Any party aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.

FOR THE TENNESSEE PUBLIC UTILITY COMMISSION:

**Vice Chairman Herbert H. Hilliard,
Commissioner John Hie, and
Commissioner David F. Jones concurring.**

None dissenting.

ATTEST:



Earl R. Taylor, Executive Director