

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION  
NASHVILLE, TENNESSEE**

**IN RE:**

**PETITION OF ATMOS ENERGY )  
CORPORATION FOR APPROVAL )  
OF ITS 2021 ANNUAL RATE ) DOCKET NO. 21-XXXXX  
REVIEW FILING PURSUANT TO )  
TENN. CODE ANN. § 65-5-103(d)(6) )**

**PRE-FILED TESTIMONY OF WILLIAM D. MATTHEWS  
ON BEHALF OF ATMOS ENERGY CORPORATION**

## I. INTRODUCTION OF WITNESS

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

A. My name is William D. Matthews. I am Manager, Rates and Regulatory Affairs with Atmos Energy Corporation (“Atmos Energy” or “Company”). My business address is 5420 LBJ Freeway, Ste. 1600, Dallas, Texas 75240.

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

A. I hold undergraduate degrees in accounting and finance from Texas A & M University. I started my career with Atmos Energy in 2005 as a Business Planning Analyst. As a Business Planning Analyst, and positions of increasing responsibility within Business Planning & Analysis, I have worked on the annual planning process focusing on customer analysis, integrating upcoming filings within the Company's operating plan and performed various special analysis and projects for the Vice President of Strategic Planning. I was named Manager of Rates and Regulatory Affairs in October 2020.



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

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

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

7   A.   Yes.

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

10  A.   I have calculated the Company's cost of service, or revenue requirement, for the  
11       Historic Test Period ended September 30, 2020, that is needed for the Company to  
12       earn its authorized return on equity. I have also calculated the Annual  
13       Reconciliation Revenue Requirement ("ARRR") for the Historic Test Period. The  
14       results and supporting calculations are shown in the Revenue Requirement Model,  
15       Schedules 1-11. All of the calculations were made in accordance with the Approved  
16       Methodologies.

17  **Q.   PLEASE SUMMARIZE YOUR RESULTS.**

18  A.   The Company's total cost of service for the Historic Test Period ended September  
19       30, 2020 is \$145,826,135. The Company's revenue at present rates utilizing current  
20       tariff rates, and actual historical billing determinants normalized for weather is  
21       \$137,505,439, resulting in a revenue deficiency for the Historic Test Period ending  
22       September 30, 2020 of \$8,320,696. The ARRR comparing actual cost of service  
23       excluding gas cost from the historic test period with actual gross margin from the

1 same period results in a revenue deficiency of \$5,632,416. In calculating the ARRR,  
2 I have also added the net revenue deficiency of \$713,614 approved by the  
3 Commission in Docket No. 19-00076.<sup>2</sup> I have also included an expense credit of  
4 \$6,056,542 for the amortization of excess deferred income tax.<sup>3</sup> The resulting total  
5 revenue deficiency is \$7,896,570. I have included in the ARM filing proposed  
6 tariffs with proposed rates that produce that amount of revenue and that were  
7 calculated using the Approved Methodologies.

### 8 **III. HISTORY AND PURPOSE OF THE ANNUAL REVIEW MECHANISM**

#### 9 **Q. PLEASE EXPLAIN THE PURPOSE OF THE COMPANY'S ANNUAL** 10 **REVIEW MECHANISM.**

11 A. The ARM is designed to provide the Company a reasonable and timely means of  
12 recovering its cost of service for each Historic Test Period. The ARM is a  
13 comprehensive mechanism that includes all components of cost of service. This  
14 includes, among other things, capital investment and depreciation expense, O&M  
15 expenses, and revenues as detailed in the Revenue Requirement Model. The ARM,  
16 created pursuant to Tennessee Code Annotated Section 65-5-103(d)(6), is a  
17 reasonable and effective solution that allows the Company timely recovery of its  
18 cost of service while avoiding costly and litigious general rate cases. In approving  
19 the ARM in November 2015<sup>4</sup> and modified single-filing ARM in December 2019,

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<sup>2</sup> *In re: Atmos Energy Corporation — 2019 ARM Reconciliation Filing*, Docket No. 19-00076, *Order Approving Revised Petition*, p. 11 (August 25, 2020).

<sup>3</sup> *In accordance with terms of Stipulation and Agreement filed on November 4, 2020 In re; Tennessee Public Utility Commission Investigation of Impacts of Federal Tax Reform on the Public Utility Revenue Requirements*, Docket No. 18-00034.

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

1 the Commission found the mechanism to be in the public interest.<sup>5</sup>

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

4 A. The ARM was initially approved by the Commission in Docket No. 14-00146 by  
5 Order issued on November 4, 2015.<sup>6</sup> The modified approach to account for a  
6 single-filing ARM was approved by the Commission in Docket No. 18-00112 by  
7 Order issued on December 16, 2019.<sup>7</sup>

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

10 A. Under the ARM, as set forth in the Company's Tariff Sheets 34.1 through 34.7 and  
11 the schedules thereto, the Company calculates an annual revenue requirement for  
12 its Tennessee jurisdiction for each Historic Test Period and then allocates that  
13 revenue requirement across the Company's customer classes using Approved  
14 Methodologies established in the Company's most recent rate case. The annual  
15 filing serves two main functions: (1) it determines the ARRR by comparing actual  
16 cost of service excluding gas cost from the historic test period just completed with  
17 actual adjusted gross margin from the same period; and (2) it determines the  
18 Company's revenue requirement and the rates necessary to allow the Company to

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<sup>5</sup> *In re: Docket to Investigate and Consider Modifications to Atmos Energy Corporation's Annual Rate Review Mechanism Under Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 18-00112, Order Approving Stipulation and Settlement Agreement*, p. 10 (December 16, 2019).

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

<sup>7</sup> *In re: Docket to Investigate and Consider Modifications to Atmos Energy Corporation's Annual Rate Review Mechanism Under Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 18-00112, Order Approving Stipulation and Settlement Agreement*, p. 10 (December 16, 2019).

1 earn its authorized return on equity for the same historic test period.

2 Through the annual ARM filing, which is filed no later than February 1 of  
3 each year, the Company updates both the customer and volumetric charges of its  
4 base rates in accordance with the Approved Methodologies to reflect the revenue  
5 requirement.

6 **Q. WERE ANY ADJUSTMENTS MADE DUE TO IMPACTS OF THE**  
7 **CORONAVIRUS?**

8 A. No, because of the comprehensive nature of the ARM, no adjustments were  
9 required to “normalize” results for the Historic Test Period regarding the impacts  
10 of the Coronavirus.

11 **IV. REVENUE REQUIREMENT MODEL SCHEDULES**

12 **Q. PLEASE LIST THE SCHEDULES THAT COMPRISE THE COMPANY’S**  
13 **REVENUE REQUIREMENT MODEL.**

14 A. The Revenue Requirement Model is comprised of:

15 Schedule 1: Cost of Service

16 Schedule 2: Summary of Actual Revenues for the Historic Test Period

17 Schedule 3: Cost of Gas

18 Schedule 4: Operation and Maintenance Expenses

19 Schedule 5: Taxes Other than Income

20 Schedule 6: Depreciation and Amortization Expenses

21 Schedule 7: Rate Base and Return

22 Schedule 8: Computation of State Excise and Income Taxes

23 Schedule 9: Overall Cost of Capital

1 Schedule 10: Rate of Return

2 Schedule 11: Proof of Revenues and Calculation of Rates

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

7 **Q. PLEASE EXPLAIN SCHEDULE 1.**

8 A. Schedule 1 summarizes the elements of the cost of service, including gas cost  
9 expense, O&M expense, depreciation expense, taxes other than income taxes,  
10 return on rate base, income tax, allowance for funds used during construction  
11 ("AFUDC") and interest on customer deposits. Schedule 1 compares the total cost  
12 of service to revenue at present rates in order to calculate a net revenue  
13 deficiency/sufficiency. Additionally, includes the ARRR and calculates the net  
14 adjustment necessary to be implemented during the Rate Effective Year (defined as  
15 the twelve months beginning June 1 of the year following the end of the Historic  
16 Test Period). Schedule 1R calculates the cost of service and is used to calculate  
17 the ARRR.

18 **Q. PLEASE EXPLAIN SCHEDULES 2 AND 3.**

19 A. Schedule 2 shows per book revenues for the Historic Test Period ended September  
20 30, 2020. Schedule 3 shows the Historic Test Period per books gas cost. The  
21 Historic Test Period cost of gas is adjusted to remove rent for inter-company leased  
22 storage property that is booked to gas cost per the Approved Methodologies.

1   **Q.    DID YOU MAKE ANY ADJUSTMENTS TO ACCOUNT FOR PREVIOUS**  
2       **ARRR AMOUNTS?**

3    A.    Yes. Schedule 2 contains adjustments to remove the ARRR revenue deficiency  
4       approved in Docket No. 19-00076.<sup>8</sup> That docket adjusted rates based on a revenue  
5       deficiency of \$713,614.<sup>9</sup>

6   **Q.    PLEASE EXPLAIN SCHEDULE 4.**

7    A.    Schedule 4 shows the Historic Test Period per books O&M expense with  
8       adjustments made in accordance with the Approved Methodologies, including an  
9       adjustment to the Historic Test Period O&M expense to include operating expenses  
10      for the Barnsley storage asset. The Historic Test Period O&M also includes the  
11      removal of specified subaccounts, most notably related to the pension accrual and  
12      incentive compensation, per the Approved Methodologies. The items disallowed  
13      for ratemaking purposes are itemized on WP 4-1.

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

16   A.    As required by the Approved Methodologies, the Company removed the actual FAS  
17      87 expenses. In years when the Company makes actual cash contributions to its  
18      pension fund, the allocable amount will be included in the ARM filing. For this  
19      Historic Test Period in this filing, the Company did not make an actual cash  
20      contribution to its pension fund, and therefore the allocable amount is \$0.

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<sup>8</sup> *In Re: Atmos Energy Corporation – 2019 ARM Reconciliation Filing*, Docket No. 19-00076, *Order Approving Revised Petition*, p. 10 (August 25, 2020).

<sup>9</sup> *Id.*



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

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

7   **Q.    PLEASE EXPLAIN SCHEDULE 5.**

8    A.    Schedule 5 shows Historic Test Period per books taxes other than income taxes, and  
9        includes ratemaking adjustments consistent with the Approved Methodologies.

10  **Q.    PLEASE EXPLAIN SCHEDULE 6.**

11  A.    Schedule 6 shows the Historic Test Period per books depreciation and amortization  
12        expense. Schedule 6 includes ratemaking adjustments to reflect end of Historic  
13        Test Period plant levels, and those consistent with the Approved Methodologies. I  
14        adjusted the Historic Test Period depreciation expense to include expense for  
15        intercompany leased storage property per the Approved Methodologies, as well as  
16        to adjust for the removal of depreciation expense on capitalized incentive  
17        compensation.

18  **Q.    PLEASE EXPLAIN SCHEDULE 7.**

19  A.    Schedule 7 shows the calculation of the Historic Test Period rate base in accordance  
20        with the provisions of the ARM Tariff. The rate base includes the Regulatory Asset  
21        and ratemaking adjustments consistent with the Approved Methodologies.  
22        Schedule 7R calculates the historic average rate base for use in the calculation of  
23        the ARRR.

1   **Q.    WHAT ADJUSTMENTS ARE MADE TO THE HISTORIC TEST PERIOD**  
2       **RATE BASE?**

3    A.    The Company has followed all Approved Methodologies in making adjustments to  
4       the Historic Test Period rate base. Also consistent with prior ARM filings, Schedule  
5       7 also includes adjustments for cash working capital and the net book value of inter-  
6       company leased storage property. The revenue and expense lag factors from the  
7       Company's lead/lag study prepared in Docket No. 14-00146 were applied to actual  
8       results in order to calculate the Company's actual cash working capital requirement  
9       consistent with the Approved Methodologies. In Schedule 7R, I have also made  
10      the adjustment to the original cost of plant to incorporate the average of the four  
11      months of the Regulatory Asset shown on Workpaper 7-10.

12   **Q.    PLEASE DISCUSS WORKPAPER 7-9.**

13   A.    Workpaper 7-9 contains a deviation for Excess Deferred Income Taxes ("EDIT").  
14      The adjustment for EDIT includes additional amortization as reflected in the  
15      Settlement Agreement filed November 3, 2020 in Docket No. 18-00034 Tennessee  
16      Public Utility Commission Investigation of Impacts of Federal Tax Reform on the  
17      Public Utility Revenue Requirements.

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

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

1   **Q.     PLEASE EXPLAIN SCHEDULE 8.**

2   A.     Schedule 8 shows the calculation of state excise taxes and income taxes on the  
3           required return on rate base for the Historic Test Period. Schedule 8R calculates  
4           state excise taxes and income taxes on the required return for use in the calculation  
5           of the ARRR.

6   **Q.     PLEASE EXPLAIN SCHEDULE 9.**

7   A.     Schedule 9 shows the calculation of the overall cost of capital based on the capital  
8           structure, debt cost rates, and the required rate of return on equity required for the  
9           Historic Test Period. It is comprised of the actual equity balance and actual long-  
10          term debt balance as of September 30, 2020, and a twelve-month average short-  
11          term debt balance for the twelve months ending September 30, 2020. The  
12          authorized return on equity is 9.80% and the actual cost of debt is calculated on WP  
13          9-2 and WP 9-3 of the filing, per the Approved Methodologies. Schedule 9R  
14          calculates overall cost of capital for use in the calculation of the ARRR.

15  **Q.     PLEASE EXPLAIN SCHEDULE 10.**

16  A.     Schedule 10 shows the calculation of a rate of return on rate base and a rate of return  
17          on the equity financed portion of rate base for the Historic Test Period, adjusted  
18          with costs and revenues as presented in Schedules 2 through 9, per the Approved  
19          Methodologies. Schedule 10R presents the calculation of a rate of return on rate  
20          base and a rate of return on the equity-financed portion of rate base for use in the  
21          calculation of the ARRR.

22  **Q.     PLEASE EXPLAIN SCHEDULE 11.**

23  A.     Schedule 11 presents the calculation of new tariff rates by customer class and rate

1   **Q.     PLEASE EXPLAIN SCHEDULE 8.**

2   A.     Schedule 8 shows the calculation of state excise taxes and income taxes on the  
3           required return on rate base for the Historic Test Period. Schedule 8R calculates  
4           state excise taxes and income taxes on the required return for use in the calculation  
5           of the ARRR.

6   **Q.     PLEASE EXPLAIN SCHEDULE 9.**

7   A.     Schedule 9 shows the calculation of the overall cost of capital based on the capital  
8           structure, debt cost rates, and the required rate of return on equity required for the  
9           Historic Test Period. It is comprised of the actual equity balance and actual long-  
10          term debt balance as of September 30, 2020, and a twelve-month average short-  
11          term debt balance for the twelve months ending September 30, 2020. The  
12          authorized return on equity is 9.80% and the actual cost of debt is calculated on WP  
13          9-2 and WP 9-3 of the filing, per the Approved Methodologies. Schedule 9R  
14          calculates overall cost of capital for use in the calculation of the ARRR.

15  **Q.     PLEASE EXPLAIN SCHEDULE 10.**

16  A.     Schedule 10 shows the calculation of a rate of return on rate base and a rate of return  
17          on the equity financed portion of rate base for the Historic Test Period, adjusted  
18          with costs and revenues as presented in Schedules 2 through 9, per the Approved  
19          Methodologies. Schedule 10R presents the calculation of a rate of return on rate  
20          base and a rate of return on the equity-financed portion of rate base for use in the  
21          calculation of the ARRR.

22  **Q.     PLEASE EXPLAIN SCHEDULE 11.**

23  A.     Schedule 11 presents the calculation of new tariff rates by customer class and rate

1 schedule for the Rate Effective Year (defined as the twelve months beginning June  
2 1 of the year following the end of the Historic Test Period) consistent with the cost  
3 of service and net revenue deficiency presented in Schedule 1 (including the  
4 ARRR). The revenue requirement also includes the amortization of the excess  
5 deferred income tax liability and the revenue deficiency adjustment from Docket  
6 No. 19-00076 discussed hereinabove and referenced on Schedule 1. The net  
7 revenue requirement (comprised of the deficiency for the Historic Test Period  
8 ending September 30, 2020 plus the revenue deficiency adjustment from Docket  
9 No. 19-00076 minus the amortization of the excess deferred tax liability) is  
10 distributed across the billing determinants (customer classes and rate schedules) in  
11 this filing, consistent with the ARM tariff and Approved Methodologies.

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

14 A. Yes. The methodologies used as the basis for the cost of service in this filing are  
15 consistent with those documented in Company witness Greg Waller's pre-filed  
16 direct testimony in Docket No. 14-00146. These are the same methodologies,  
17 policies and procedures that are the basis for the Approved Methodologies as  
18 defined by the ARM tariff. The cost of service items for which the Company seeks  
19 recovery, particularly but not limited to capital investments and operating expenses,  
20 have been prudently incurred.

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**V. CONCLUSION**

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

4   A.   I respectfully request that the Commission approve the Company's 2021 ARM  
5       filing and the 2021 ARM Revenue Requirement, which have been prepared in  
6       accordance with the Approved Methodologies approved and adopted by the  
7       Commission in Docket No. 14-00146.

8   **Q.   DOES THIS CONCLUDE YOUR TESTIMONY?**

9   A.   Yes.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

IN RE:

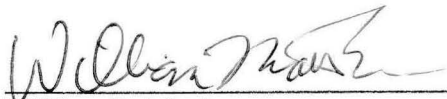
PETITION OF ATMOS ENERGY CORPORATION )  
FOR APPROVAL OF ITS 2021 ANNUAL RATE ) DOCKET NO. 21-XXXXX  
REVIEW FILING PURSUANT TO TENN. )  
CODE ANN. § 65-5-103(d)(6) )

VERIFICATION

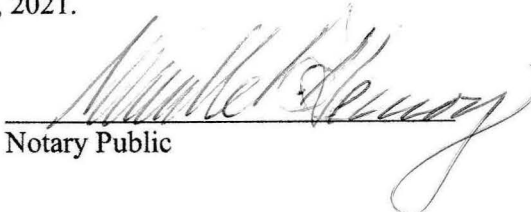
STATE OF TEXAS )

COUNTY OF DALLAS )

I, William D. Matthews, being first duly sworn, state that I am the Manager of Rates and Regulatory Affairs for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Direct Testimony of William D. Matthews in support of Atmos Energy Corporation's filing is true and correct to the best of my knowledge, information and belief.

  
William D. Matthews

Sworn and subscribed before me this 18<sup>th</sup> day of January, 2021.

  
Notary Public

My Commission Expires: 9/1/2024

