

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-01
Page 1 of 1

Electronically Filed in TPUC Docket
Room on March 18, 2022 at 11:05 a.m.

REQUEST:

Refer to two documents (i) Atmos Energy's Schedule J-11¹ submitted in Kentucky Public Service Commission Docket No. 2021-00214 and (ii) Atmos Energy's File <CPAD_1-09_Att1 - 2022 ARM – Updated>, Tab "Schedule WP 9-1"² submitted in TPUC Docket No. 22-00010. The Company's proposed capital structure identified as the twelve months ended September 30, 2021, reflects a common equity percentage of 58.71%. Reconcile the balances reflected in Schedule J-1 with those supported in "Schedule WP 9-1" which incorporates an equity ratio of 60.59%.

RESPONSE:

The capital structure in Case No. 2021-00214 is based on the Company's 13 Month Average at March 2021 actual capital structure, excluding debt related to Winter Storm Uri. As noted in the question, TPUC Docket No. 22-00010 is the capital structure as of September 30, 2021 filed as required by the ARM tariff.

¹ Application of Atmos Energy Corporation for An Adjustment of Rates and Tariff Modifications, File <FR_16(8)(j)_Att1-Schedule J.xlsx>, Kentucky Public Service Commission Docket No. 2021-00214 (June 30, 2021). The document can be accessed at https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fpsc.ky.gov%2Fpscecf%2F2021-00214%2Fregulatory.support%2540atmosenergy.com%2F0630202111836%2FFR_16%25288%2529%2528j%2529_Att1_-_Schedule_J.xlsx&wdOrigin=BROWSELINK.

² Atmos Energy's Response to Consumer Advocate DR No. 1-9, TPUC Docket No. 22-00010 (March 1, 2022).

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-02
Page 1 of 1

REQUEST:

Provide supporting information and justification for the reasonableness of the equity ratio included in the test period.

RESPONSE:

Please see Attachment 1 and Attachment 2, which contain the Direct Testimony and Rebuttal Testimony, related to the Company's Capital Structure, of Mr. Joe Christian filed in Case No. 2021-00214 in Kentucky for support and justification of the reasonableness of the Company's management of its capital structure. As discussed in more detail in the testimonies, the legal structure is such that the consolidated balance sheet directly finances all of the Company's utility operations, including Tennessee, therefore the rationale given in Kentucky is applicable to its Tennessee operations. Moreover, the Company's capital structure utilized in the filing follows the methodologies approved in 14-00146 and 18-00012.

ATTACHMENTS:

CPAD_2-02_Att1 - Joe Christian KY Direct Testimony - Case 2021- 00214
CPAD_2-02_Att2 - Joe Christian KY Rebuttal Testimony - Case 2021- 00214.pdf

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY)	
)	
CORPORATION FOR AN ADJUSTMENT)	Case No. 2021-00214
)	
OF RATES AND TARIFF MODIFICATIONS)	

TESTIMONY OF JOE T. CHRISTIAN

**INDEX TO THE DIRECT TESTIMONY
OF JOE T. CHRISTIAN, WITNESS FOR
ATMOS ENERGY CORPORATION**

I.	INTRODUCTION.....	1
I.	PURPOSE OF TESTIMONY	4
II.	REVENUE DEFICIENCY.....	9
III.	RATE BASE	10
IV.	O&M BUDGETING PROCESS	22
V.	CONTROL AND MONITORING PROCESSES	26
VI.	FORECASTED TEST PERIOD O&M BUDGET	32
VII.	DEPRECIATION EXPENSE AND TAXES OTHER THAN.....	44
VIII.	INCOME TAXES.....	47
IX.	CAPITAL STRUCTURE AND COST OF DEBT	52
X.	CASH WORKING CAPITAL	61
XI.	CONCLUSION	72

EXHIBITS

Exhibit JTC-1 – Composite Allocation Factors

Exhibit JTC-2 – Base Period to Test Period O&M

Exhibit JTC-3 – Deprecation Regulatory Reserve Credit Rates

Exhibit JTC-4 – Lead Lag Study

1 **IX. CAPITAL STRUCTURE AND COST OF DEBT**

2 **Q. HOW IS ATMOS ENERGY ORGANIZED?**

3 A. Atmos Energy conducts its utility operations in eight states through unincorporated
4 operating divisions.

5 **Q. DO THE COMPANY'S UNINCORPORATED DIVISIONS ISSUE THEIR**
6 **OWN DEBT OR EQUITY?**

7 A. No. These divisions, including the Kentucky/Mid-States Division, are not separate
8 legal entities. Instead, these unincorporated divisions collectively comprise the
9 legal entity that is Atmos Energy Corporation. Therefore, all debt or equity funding
10 of the operations performed by the utility divisions must be (and is) issued by
11 Atmos Energy Corporation as a whole, on a consolidated basis.

12 **Q. SHOULD ATMOS ENERGY'S CONSOLIDATED CAPITAL STRUCTURE**
13 **BE USED AS THE BASIS FOR A CAPITAL STRUCTURE IN THIS**
14 **PROCEEDING?**

15 A. Yes. Although this proceeding only affects the rates which may be charged by the
16 Company for its regulated utility operations in Kentucky, the appropriate capital
17 structure for each of the Atmos Energy utility operating divisions, including its
18 Kentucky/Mid-States Division, is equivalent to the consolidated capital structure
19 for Atmos Energy as a whole. Atmos Energy's consolidated capital structure is
20 appropriate for use in setting rates for the Company's Kentucky customers because

1 Atmos Energy provides the debt and equity capital that supports the assets serving
2 those customers.

3 **Q. HOW HAS THE COMPANY RELIED ON THE CONSOLIDATED**
4 **CAPITAL STRUCTURE OF ATMOS ENERGY IN THIS PROCEEDING?**

5 A. The capital structure that is appropriate for the Company's Kentucky operations in
6 this proceeding is set forth in FR 16(8)(j). As shown on FR 16(8)(j), the capital
7 structure is the Company's thirteen month period end actual capital structure as
8 March 31, 2021, with an adjustment to the outstanding long-term debt which I
9 describe below. The thirteen month actual capital structure, as adjusted, for the
10 period ended March 31, 2021 is representative of the capital structure that will be
11 in effect during the forecast period. As shown in that FR, column (G), short term
12 debt comprises 0.02%, long-term debt comprises 42.80% and equity is 57.00% of
13 the Company's 13-month average rate base for the forward looking test period.

14 **Q. WHAT RATE DO YOU PROPOSE FOR THE EMBEDDED COST OF**
15 **LONG-TERM DEBT CAPITAL IN SETTING RATES IN THIS CASE?**

16 A. As shown in the calculation on Schedule J-3 F, column (e), a 4.00% weighted
17 average cost of long-term debt is supported.

1 **Q. IS THIS THE WEIGHTED AVERAGE COST OF LONG-TERM DEBT FOR**
2 **THE THIRTEEN MONTHS ENDED MARCH 31, 2021?**

3 A. No. The weighted average cost of long-term debt has been adjusted to reflect the
4 Company's anticipated refinancing of \$2.2 billion of financing issued in March of
5 2021 ("March 21 Financing"). The March 2021 Financing was issued to finance
6 unanticipated natural gas cost related to Winter Storm Uri. The majority, if not all,
7 of this financing will be repaid with a securitization of Winter Storm Uri gas costs
8 in the spring of 2022 therefore I have excluded the debt, and financing costs from
9 this case.

10 **Q. THE COMPANY HAS BEEN ACTIVE IN THE CAPITAL MARKETS**
11 **SINCE 2014, DO YOU ANTICIPATE THAT THERE WILL BE**
12 **ADDITIONAL DEBT AND EQUITY ISSUED DURING THE PENDENCY**
13 **OF THIS CASE?**

14 A. Yes, and I would be amenable to updating the capital structure and embedded cost
15 of long-term debt during rebuttal to reflect any additional financings or changes to
16 the equity balances of the Company. However, as I noted above and as shown in
17 FR 16(7)(h)(11), I don't expect this to have an appreciable impact on the
18 relationship between debt and equity, only on the embedded cost of long-term debt.

1 **Q. WHAT RATE DO YOU PROPOSE FOR THE COST OF SHORT-TERM**
2 **DEBT CAPITAL IN SETTING RATES IN THIS CASE?**

3 A. As shown in the calculation on Schedule J-2 F, column (e), a 25.17% weighted
4 average cost of short-term debt is supported. Please note that the Company has had
5 very little short-term debt outstanding during the 13 months ended March 2021
6 therefore the commitment administrative fees associated with the short-term debt
7 gets spread over very few dollars which results in a higher average rate.

8 **Q. IS THIS THE WEIGHTED AVERAGE COST OF SHORT-TERM DEBT**
9 **FOR THE DAILY OUTSTANDING TWELVE MONTH PERIOD END**
10 **MARCH 31, 2021?**

11 A. Yes.

12 **Q. HAS THE THIRTEEN MONTH MARCH 31, 2021 SHAREHOLDER**
13 **EQUITY BALANCE BEEN ADJUSTED IN TO REFLECT THE ISSUANCE**
14 **OF EQUITY DURING THE BASE OR FORECAST PERIOD?**

15 A. No. I believe that the Company's incremental external financing along with cash
16 flow reinvested in the business will result in an overall capital structure that is in
17 line with the thirteen month ended March 31, 2021 capital structure therefore no
18 adjustment is warranted at this time but as noted above can be updated through the
19 latest quarter end at the time of rebuttal.

1 **Q. DID THE COMMISSION EXPRESS CONCERNS WITH THE**
2 **COMPANY’S CAPITAL STRUCTURE IN CASE NO. 2018-00281?**

3 A. Yes. After discussing the Attorney General’s positions, the Company’s rebuttal and
4 accepting the Company’s updated position in rebuttal, the Commission stated,
5 “Atmos’s increase in common equity is concerning to the Commission, especially
6 as compared to the proxy companies, which the Attorney General contends have a
7 current equity ratio of 50.2 percent. Further, Atmos stated that the average
8 debt/equity ratio for the proxy group, as noted by Value Line for 2021-2023, is 44
9 percent debt and 56 percent equity....”³⁷.

10 **Q. HOW DO YOU RESPOND TO THIS CONCERN?**

11 A. As noted in my rebuttal in Case No. 2018-00281, the capital structure proposed and
12 supported in this case represents an actual cost, not a hypothetical or subsidiary cost
13 that is part of a larger holding company and can be leveraged at a higher level in
14 the corporate structure. I also noted that as the factors used by the credit rating
15 agencies to evaluate utilities demonstrate, relying too heavily on long-term debt
16 financing creates risk, as does a regulatory environment that is not supportive of
17 utilities’ ability to recover their actual costs and to have the opportunity to earn a
18 fair return on their investments. Moreover, the Company’s capital structure is
19 reflective of what is necessary to maintain its current credit metrics.

³⁷ Final Order Case No. 2018-00291, page 34.

1 **Q. WHY IS IT IMPORTANT FOR THE COMPANY TO CALCULATE ITS**
2 **REVENUE REQUIREMENT BASED UPON ITS ACTUAL CAPITAL**
3 **STRUCTURE?**

4 A. Safe and reliable service cannot be maintained at a reasonable cost if the Company
5 does not have the financial flexibility and strength to access the competitive capital
6 markets on reasonable terms. As the factors used by the credit rating agencies to
7 evaluate utilities demonstrate, relying too heavily on long-term debt financing
8 creates risk, as does a regulatory environment that is not supportive of utilities'
9 ability to recover their actual costs and to have the opportunity to earn a fair return
10 on their investments. Increasing the percentage of long-term debt in the Company's
11 capital structure negatively affects the key financial indicators relied upon by the
12 credit rating agencies, which puts the Company at risk of a credit rating downgrade
13 and increases in the cost of debt financing, both of which adversely affect all of
14 Atmos Energy's stakeholder groups, including its customers, its shareholders, and
15 its bondholders.

16 **Q. CAN ATMOS ENERGY MAINTAIN SAFE AND RELIABLE SERVICE AT**
17 **A REASONABLE COST OVER THE LONG-TERM IF IT DOES NOT**
18 **RECOVER ITS ACTUAL COSTS?**

19 A. In order to provide safe, reliable, and affordable service to its customers, Atmos
20 Energy must meet the needs and serve the interests of its various stakeholders,

1 including customers, shareholders, and bondholders. The interests of these
2 stakeholder groups are aligned with maintaining a healthy balance sheet, strong
3 credit ratings, and a supportive regulatory environment, so that the Company has
4 access to capital on reasonable terms in order to make necessary investments.

5 Safe and reliable service at a reasonable cost cannot be maintained if
6 utilities do not have the financial flexibility and strength to access the competitive
7 capital markets on reasonable terms. The authorization of a capital structure other
8 than the Company's actual capital structure will weaken the Company's financial
9 condition and adversely impact the Company's ability to address expenses and
10 investment, to the detriment of customers and shareholders. Safe and reliable
11 service for customers cannot be sustained over the long term if the interests of
12 shareholders and bondholders are minimized such that the public interest is not
13 optimized.

14 **Q. HAS THE COMPANY'S STRONGER EQUITY POSITION ALLOWED IT**
15 **TO SUCCESSFULLY MANAGE VARIOUS CHALLENGES THE PAST**
16 **FIVE YEARS?**

17 A. Yes. Although the TCJA reduced the federal income tax rate and created a need to
18 return deferred taxes to customers resulting in a negative impact to cash flow the
19 Company has been able to adjust its external financing needs and not experience a
20 downgrade by ratings agencies. When the COVID-19 Pandemic resulted in

1 Emergency Orders being issued across all of our service territories to not disconnect
2 we were able to raise additional debt early in the pandemic to maintain our liquidity
3 during uncertain times. When the Commission lowered our depreciation rates and
4 therefore cut our cash flow from operations, we have been able to manage through
5 the additional strain on our financial metrics. Last, I'll mention that with the
6 financial strength our balance sheet brings at its current capitalization, as part of
7 responding to Winter Storm Uri and despite being put on credit watch by both
8 ratings agencies we were able to quickly raise \$2.2 billion to fund extraordinary gas
9 cost on very short notice and increase our liquidity through a new short-term credit
10 facility.

11 **Q. WOULD SETTING THE COMPANY'S CAPITAL STRUCTURE AT**
12 **ANYTHING OTHER THAN ACTUAL BE BENEFICIAL TO THE**
13 **CUSTOMER?**

14 A. No. A regulatory environment that does not permit a utility to have a reasonable
15 opportunity to earn a fair return on its prudently incurred cost leads to poor results
16 in the long run. Supporting utilities that invest in the energy infrastructure in a
17 prudent and efficient manner should encouraged, not discouraged through short-
18 sighted regulatory decisions.

1 **Q. DOES ATMOS ENERGY’S ORGANIZATIONAL STRUCTURE SUPPORT**
2 **CALCULATING THE RATES IN KENTUCKY ON THE COMPANY’S**
3 **ACTUAL CAPITAL STRUCTURE?**

4 A. Yes, as I stated at the beginning of this section, Atmos Energy conducts utility
5 operations in eight states through unincorporated divisions, including the
6 Company’s Kentucky operations.

7 **Q. WHY IS THIS ORGANIZATIONAL STRUCTURE OF ATMOS ENERGY**
8 **(NON-HOLDING COMPANY) AN IMPORTANT DISTINCTION?**

9 A. Unlike other utilities that operate in Kentucky, the actual capital costs upon which
10 Atmos Energy’s Kentucky rates are calculated are not complicated by differing
11 levels of debt/equity ratios at the holding company level vs. the subsidiary level.

12 **Q. ARE THERE ADVANTAGES TO ATMOS ENERGY’S FINANCIAL**
13 **STRUCTURE?**

14 A. Yes. Operating all of the distribution and transmission business within Atmos
15 Energy Corporation saves administrative costs, results in a more transparent
16 business model, provides more transparency in financial reporting, and allows us
17 to focus on the operational needs of the gas distribution and transmission business
18 and how best to meet the financing needs as we progress through our investment
19 in natural gas infrastructure for growth and system replacement.

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

APPLICATION OF ATMOS ENERGY)	
)	
CORPORATION FOR AN ADJUSTMENT)	Case No. 2021-00214
)	
OF RATES AND TARIFF MODIFICATIONS)	

REBUTTAL TESTIMONY OF JOE T. CHRISTIAN

November 18, 2021

TABLE OF CONTENTS

I. INTRODUCTION AND PURPOSE	1
II. SUMMARY OF TESTIMONY.....	6
III. CAPITAL STRUCTURE	7
IV. RATE BASE.....	20
V. COST OF SERVICE ADJUSTMENTS	26
VI. POLICY ISSUES	29
VII. CONCLUSION	37

1 • **PRP Tariff** – In conjunction with Mr. Austin, I address Mr. Kollen’s policy
2 concerns with our proposed inclusion of Aldyl-A pipe within the PRP tariff
3 and the impact that exclusion of Aldyl-A pipe has on our non-PRP
4 investment.

III. CAPITAL STRUCTURE

Q. PLEASE DESCRIBE MR. BAUDINO'S AND MR. KOLLEN'S RECOMMENDATIONS REGARDING THE CAPITAL STRUCTURE OF THE COMPANY?

A. Mr. Baudino recommends that the Commission cap the common equity at 53.5%⁶ as a “reasonable first step in reducing [the Company’s] common equity ratio to a more reasonable and affordable level for its Kentucky customers.” He notes that his recommendation is higher than the ratios requested by Duke Energy Kentucky, Columbia Gas of Kentucky, and Delta Natural Gas in their filings currently before the Commission⁷. Mr. Baudino also references back to the final order in Case No. 2018-00281 noting the Commission’s concern at that time that Atmos Energy’s capital structure is higher than the proxy group in that case⁸.

Mr. Kollen states that “the Company’s proposed common equity capitalization and the resulting common equity ratio is excessive and unnecessarily and unreasonably increases the cost of capital and return on rate base, as well as the income taxes on the equity return”⁹. He goes on to recommend increasing the short-

⁶ *In the Matter of: Electronic Application of Atmos Energy Corporation for an Adjustment of Rates*, Direct Testimony and Exhibits of Richard Baudino, Page 31

⁷ Baudino at 30.

⁸ Baudino at 31.

⁹ Kollen, Page 36.

1 term debt to 1% of the overall capital structure, characterizing the Company's
2 proposed short-term debt as "inexplicably de minimis and unnecessarily and
3 unreasonably increases the cost of capital and return on rate base¹⁰" Mr. Kollen also
4 recommends that the Commission indicate an intention to transition to a minimum
5 of 2% in the next base rate case proceeding¹¹. Mr. Kollen moves the remainder of
6 Mr. Baudino's recommendation on equity to long-term debt, using a 45.5% ratio
7 for this case and that a complete transition be made to 48% in the next rate case¹².
8 Mr. Kollen's final recommendation is that the Commission scale down the
9 commitment fees included in the base revenue requirement. In total, the OAG's
10 recommendations result in a capital structure that has an overall weighted average
11 cost of 6.65%¹³.

12 **Q. DID YOU PROACTIVELY RESPOND TO THE COMMISSION'S**
13 **CONCERNS IN CASE NO. 2018-00218 IN YOUR DIRECT TESTIMONY?**

14 A. Yes¹⁴. In my direct testimony I did acknowledge the Commission's concerns and
15 do appreciate the primary objection that OAG's witnesses raise -- equity capital
16 costs more than debt capital. However, as I noted in Case No. 2018-00218, and
17 reiterated in my direct testimony, the Company has analytically based reasons and
18 has made business decisions in the best interest of all its stakeholders that result in
19 a higher equity component as part of its capitalization. Atmos Energy's primary
20 purpose in its capitalization strategy is to enable the Company to meet the need to

¹⁰ Kollen at 38

¹¹ Kollen at 38. Mr. Kollen provided additional support for his 2% rational in response to Staff 1-3, comparing it to other utilities outcomes in Kentucky.

¹² Kollen at 39.

¹³ Kollen at 43.

¹⁴ Christian Direct at 52 – 57.

1 accelerate the modernization of its pipeline to effectively support the long-term
2 safety of its system. This type of investment, which is contemplated and
3 encouraged by the safety regulation governing our industry, results in an increased
4 need to access the capital markets. To maintain our current credit rating assigned
5 by the credit ratings agencies, we need the equity component of our capital structure
6 to run in the upper end of our target range. The increase of the equity component
7 in its overall capitalization allows the Company to access the debt markets at the
8 lowest reasonable cost.

9 **Q. DID EITHER OF THE OAG’S WITNESSES PROVIDE ANY ANALYTICAL**
10 **SUPPORT FOR THEIR CONCLUSIONS?**

11 A. No. Both Mr. Kollen and Mr. Baudino limit their analysis and recommendation to
12 comparisons of the proxy group or other recent Commission outcomes involving
13 Kentucky utilities. Neither Mr. Kollen nor Mr. Baudino performed analysis on the
14 financial impact of their recommendations on the Company’s financial metrics.
15 The primary concern of both witnesses is that the cost of equity as compared to the
16 cost of debt^{15,16}, and there is no acknowledgement given to the overall impact of
17 implementing their recommendations on the Company’s ability to continue to raise
18 external financing to continue making investment in its utility operations.

¹⁵ Baudino at 29, “...and inflates the revenue requirement for Kentucky ratepayers.”

¹⁶ Kollen at 36, “Common equity is by far and away the most expensive capital and it should be maintained at the lowest reasonable level, not the highest unreasonable level.”

1 **Q. HAVE YOU ANALYZED THE IMPACT OF THEIR PROPOSED CHANGES**
2 **TO THE COMPANY’S CAPITAL STRUCTURE?**

3 A. Yes. Attached to my testimony as Exhibit JTC-R-2 is a comparison of the impact
4 on the key financial indicators (KFIs) used by Standard & Poors Global Ratings
5 (S&P). The comparison is between the Company’s current long-term plan¹⁷ for our
6 Kentucky operations and the OAG’s recommendations for our capital structure,
7 return on equity, and acceleration of unprotected EDIT from five years to three
8 years. While S&P evaluates Atmos Energy on a consolidated basis, the analysis is
9 demonstrative of the impact OAG’s recommendations would have if applied to the
10 entire Company.

11 **Q. WHAT ARE THE RESULTS OF YOUR ANALYSIS?**

12 A. As shown in Exhibit JTC-R-2, the two primary core ratios (FFO/Debt and
13 Debt/EBIDA) of Atmos Energy Corporation are in the Intermediate category which
14 is the analytical basis for the Company’s current debt rating¹⁸. Both KFIs are
15 diminished from Intermediate to Significant when applying the recommendations
16 of the OAG witnesses. In other words, if the Commission fully adopted OAG’s
17 recommendations the Kentucky operations would not pull the same weight in the
18 generation of funds from operations or coverage of debt obligations as the
19 Company’s other utility operations. This decline would lead to a downgrade if
20 Kentucky represented the entire Company, which in the long-term would drive
21 higher financing costs for our utility customers.

¹⁷ To be conservative, I used the current authorized return on equity of 9.65% to derive the KFIs.

¹⁸ In order to exclude the short-term impact of winter storm Uri, I base exclude gas costs in deriving the KFIs and base my comments using S&P Global Ratings report on Atmos Energy dated October 29, 2020.

1 **Q. WHAT ELSE DOES EXHIBIT JTC-R-2 DEMONSTRATE?**

2 A. The KFIs demonstrate that the Company's proposed capital structure in this case
3 produces funds from operations and debt coverage ratios that fall within the range
4 of our consolidated capital structure. In other words, we are not proposing or
5 requesting a capital structure with 57% equity to simply increase the Company's
6 overall return for shareholders as implied by Mr. Baudino and Mr. Kollen.
7 However, use of a hypothetical capital structure for ratemaking purposes with
8 increased long-term debt as the OAG's witnesses suggest would negatively affect
9 the Company's financial integrity and put the Company at risk of a credit rating
10 downgrade and increases to the cost of debt financing, both of which adversely
11 affect all of Atmos Energy's stakeholder groups, including its customers, its
12 shareholders, and its bondholders.

13 **Q. DOES THE COMPANY'S PROPOSED CAPITAL STRUCTURE**
14 **REPRESENT ITS ACTUAL COST OF DOING BUSINESS?**

15 A. Yes. As, as noted in my direct testimony, the Company uses its actual capital
16 structure, which represents its actual costs. Mr. Kollen supports the use of a
17 hypothetical capital structure by reiterating his claim that the Company's requested
18 equity capitalization is "unreasonable and results in an excessive cost of capital"¹⁹.
19 Neither Mr. Kollen or Mr. Baudino acknowledge that the Company has operated
20 with a capital structure at its current capital structure since Case No. 2018-00281,
21 thus further support for my arguments in Case No. 2018-00281 as well as this case
22 that we have an analytical basis for our capital structure and have continued to have

¹⁹ Kollen at 40.

1 a need to access the external capital market to support our capital investment in
2 Kentucky as well as our other utility operations. This continued investment benefits
3 our customers by enabling us to continue to provide safe and reliable service.

4 **Q. HAVE ANY OF THE INDUSTRY RATINGS AGENCY REPORTS ISSUED**
5 **DRAWN THE CONTRAST BETWEEN ATMOS ENERGY'S STRONG**
6 **BALANCE SHEET AND UTILITIES WITH WEAKER BALANCE**
7 **SHEETS?**

8 A. Yes. On January 19, 2018, Moody's Investors Service ("Moody's") revised
9 downward its outlooks of 25 US regulated utilities due to the passage of the Tax
10 Cuts and Jobs Act. Atmos Energy was not one of those 25 companies, primarily
11 due to the Company's strong credit metrics. On April 2, 2020 S&P noted in a
12 comment that they were revising their assessment of the North America regulated
13 utility industry to negative from stable and that many utilities with a stable outlook
14 have minimal financial cushion at the current rating level. However, Atmos
15 Energy's business decisions that led to a healthy balance sheet have enabled it to
16 continue to access the capital markets during the current market stress and continue
17 with a stable outlook.

18 **Q. YOU DISCUSSED KFIs AND THE IMPACT ON ATMOS ENERGY OF THE**
19 **OAG'S RECOMMENDATIONS, DO RATING AGENCIES PUBLISH**
20 **REPORTS THAT PROVIDE TRANSPARENCY INTO HOW DEBT**
21 **RATINGS ARE DERIVED AND THE IMPORTANCE OF KFIs ON THE**
22 **DEBT RATING?**

1 A. Yes, both Moody's Investor Service and Standard and Poor's ("S&P") provide
2 insight to investors regarding how debt ratings are assigned. Moody's issued an
3 updated Rating Methodology for Regulated Electric and Gas Utilities on June 23,
4 2017, and I have attached that to my testimony as Exhibit JTC-R-3 as an example
5 of how Moody's assigns ratings.

6 **Q. HOW DOES MOODY'S INVESTOR SERVICE EVALUATE THE CREDIT**
7 **RATING OF A UTILITY?**

8 A. As the opening Summary indicates, the rating methodology document explains
9 Moody's approach to assessing credit risk for regulated electric and gas utilities
10 globally in order to enable the reader to understand the qualitative considerations
11 and financial information and ratios that are usually most important for ratings in
12 the regulated electric and gas sector.

13 **Q. DOES THE MOODY'S REPORT DISCUSS HOW A REGULATORY**
14 **DECISION IMPACTS RATING CONSIDERATIONS?**

15 A. Yes. Moody's indicates that an over-arching consideration for regulated utilities is
16 the regulatory environment in which they operate. The report goes on to quantify
17 the four factors that are considered when evaluating a utilities overall credit
18 rating. These include, among others, Regulatory Framework (25%), Ability to
19 Recover Costs and Earn Returns (25%), and Financial Strength, Key Financial
20 Metrics (40%). The report describes all of the factors in detail, including why they
21 are important and how they are evaluated.

1 **Q. WHY DOES MOODY’S SAY REGULATORY FRAMEWORK (25%) IS**
2 **IMPORTANT?**

3 A. On Page 6 of the report under “Why It Matters” Moody’s states in part, “For rate-
4 regulated utilities, which typically operate as a monopoly, the regulatory
5 environment and how the utility adapts to that environment are the most important
6 credit considerations.”

7 **Q. ARE THERE ANY KEY PASSAGES IN THIS SECTION THAT YOU**
8 **WOULD LIKE TO HIGHLIGHT?**

9 A. Yes. Included in its more detailed description of Regulatory Framework, the report
10 states, “A utility operating in a regulatory framework that, by statute or practice,
11 allows the regulator to arbitrarily prevent the utility from recovering its costs or
12 earning a reasonable return on prudently incurred investments, or where regulatory
13 decisions may be reversed by politicians seeking to enhance their populist appeal
14 will receive a much lower score.”

15 **Q. WHY DOES MOODY’S SAY ABILITY TO RECOVER COSTS AND EARN**
16 **RETURNS (25%) IS IMPORTANT?**

17 A. On Page 12 of the report under “Why It Matters” Moody’s states in part, “The
18 ability to recover prudently incurred costs on a timely basis and to attract debt and
19 equity capital are crucial credit considerations.”

20 **Q. WHY DOES MOODY’S SAY FINANCIAL STRENGTH METRICS (40%)**
21 **ARE IMPORTANT?**

22 A. On Page 20 of the report under “Why It Matters” Moody’s states, “Electric and gas
23 utilities are regulated, asset-based businesses characterized by large investments in

1 long-lived property, plant, and equipment. Financial strength, including the ability
2 to service debt and provide a return to shareholders, *is necessary for a utility to*
3 *attract capital at a reasonable cost in order to invest* in its generation, transmission,
4 and distribution assets, so that the utility can fulfill its service obligations at a
5 reasonable cost to rate-payers.”(emphasis added)

6 **Q. HAS MOODY’S PROVIDED GUIDANCE AS WHAT CIRCUMSTANCES**
7 **WOULD CAUSE MOODY’S TO DOWNGRADE THE COMPANY’S**
8 **CREDIT RATING?**

9 A. Yes. In Moody’s Update to Credit Analysis of Atmos Energy dated December 11,
10 2020, attached hereto as Exhibit JTC-R-4, Moody’s states that it “could consider a
11 downgrade of Atmos’ rating should its regulatory constructs deteriorate as
12 evidenced by lower earned returns or a weaker equity capitalization, management
13 deviates materially from its balanced fiscal policy, or the company generates a CFO
14 pre-WC to debt ratio below 23% on a sustained basis.” Moody’s also states
15 that Atmos Energy’s rating outlook “reflects the company’s credit supportive
16 regulatory construct and our expectation that management will continue to employ
17 a balanced fiscal policy that will continue to result in consistent financial
18 performance....”

19 **Q. ARE THERE OTHER WAYS THE COMPANY COULD INCREASE ITS**
20 **FUNDS FROM OPERATIONS AND THUS SUPPORT CREDIT METRICS**
21 **WITHOUT MAINTAINING AS HIGH AN EQUITY COMPONENT IN THE**
22 **CAPITAL STRUCTURE?**

1 A. Yes, the Company could have proposed that its depreciation rates be based on the
2 Equal Life Group (ELG) methodology, however the OAG advocated for and the
3 Commission ordered in Case No. 2018-00281 that the Company utilize the Average
4 Group Life (ALG) methodology. The ALG methodology had an approximate \$7.0
5 million impact on the revenue requirement, which in turn lowers cash flow by \$7.0
6 million annually. While the Commission delayed a portion of the impact on the
7 Company's fund from operations, as can be seen in our proposed adjustment in this
8 case we will be experiencing an outflow of \$9.9 million in the immediate twelve
9 months following implementation of rates in this case²⁰.

10 **Q. TURNING TO MR. KOLLEN'S SHORT-TERM AND LONG-TERM DEBT**
11 **RECOMMENDATIONS, DO YOU AGREE THAT HIS 2% SHORT-TERM**
12 **DEBT IS APPROPRIATE?**

13 A. No. The inverse of Mr. Kollen's argument that the equity component is too high,
14 as mentioned above, is that short-term debt capitalization is inexplicably de
15 minimis. He goes on to state that short-term debt is by far and away the least
16 expensive capital and should be maintained at the highest reasonable level, not the
17 lowest unreasonable level²¹. In response to Staff discovery request 1-3 Mr. Kollen
18 expands on his recommendation by drawing comparisons to other Kentucky utility
19 cases noting that 2% is the lower end of the mid-point of these utilities. Mr. Kollen
20 simply plugs the difference in Mr. Baudino's equity percentage and the short-term

²⁰ I have excluded the impact of this one-time item from the KFI's to provide an unfiltered view of the OAG's recommendations on the Company's ability to finance its ongoing operations.

²¹ Kollen at 37.

1 debt recommendation to arrive at the long-term debt percentage to utilize in this
2 case so I will focus my rebuttal on his short-term arguments.

3 **Q. HAS THE COMPANY BEEN MORE ACTIVE IN THE DEBT CAPITAL**
4 **MARKETS THE PAST FIVE YEARS?**

5 A. Yes. To fund a portion of our capital investment over the past four fiscal years²²
6 we have locked in historically low rates on \$3.250 billion, including \$2.675 billion
7 incremental of long-term debt. In addition to improving the safety and reliability
8 of our gas distribution system, the newer long-term debt has benefited our
9 customers by lowering the weighted average cost of long-term debt from 5.2% to
10 4.0%. Moreover, the Company has entered into forward starting interest rate swaps
11 to effectively fix the Treasury yield component associated with \$1.850 billion of
12 planned issuances over the next five fiscal years²³.

13 **Q. IS THE MORE FREQUENT ACCESS TO THE CAPITAL MARKETS**
14 **DONE TO MINIMIZE SHORT-TERM DEBT?**

15 A. No. In evaluating our issuances of long-term debt each year, the Company balances
16 the need to carry short-term debt and the appeal of low short-term rates against the
17 potential rise in interest rates, and consequently increased interest expense, against
18 the certainty of locking in low interest rates available in the long-term debt markets.
19 As highlighted by Mr. Kollen, other Kentucky utilities have a higher amount of
20 short-term debt based on their needs. Higher or lower is not more or less correct in
21 any utility's balance sheet management, simply different. This is a reflection of

²² We have financed the remainder through issuances of additional equity and through reinvested funds from operations.

²³ Liquidity and Capital Resources section of 2021 10-K.

1 what each utility judges is best in regards to balancing the financing of ongoing
2 operations, upcoming refinancing, short-term rates, and long-term rates available
3 in the market.

4 **Q. DOES MR. KOLLEN'S RESPONSE TO STAFF'S REQUEST 1-3**
5 **ACCOUNT FOR THE LEGAL ORGANIZATION OF OTHER KENTUCKY**
6 **UTILITIES AND ATMOS ENERGY AND THE IMPACT ON HOW THE**
7 **BALANCE SHEET IS MANAGED?**

8 A. No. I pointed out in my direct testimony that our Kentucky utility operations are
9 within the consolidated entity of Atmos Energy Corporation, not a subsidiary under
10 a holding company, and thus no separately issued or rated long-term debt. This is
11 different than the holding company structure/subsidiary legal organization of the
12 utilities cited in his answer. I do not know the specifics of how these utilities
13 manage their balance sheet but am aware that often times there is a marked
14 difference in the publicly traded holding company and the regulatory capital
15 structure at the operating company level, thus introducing another layer of
16 consideration when a holding company is managing its balance sheets (holding
17 company and subsidiary) compared to the transparency of Atmos Energy's one
18 consolidated balance sheet that is focused on maintaining one set of credit metrics
19 while raising external financing and reinvesting over half its earnings back into its
20 business in a balanced fashion.

1 **Q. BASED ON YOUR KNOWLEDGE, EXPERTISE, AND REVIEW OF**
2 **FINANCIAL TREATISES, IS THERE SUCH A THING AS AN OPTIMAL**
3 **CAPITAL STRUCTURE?**

4 A. No. See, for example, *New Regulatory Finance* by Roger A. Morin. After
5 conducting a review of the various studies that have been performed and trade-offs
6 involved in having a higher or lower debt ratio the author concludes, "...finance
7 theory provides limited guidance on what a company's capital structure should be
8 precisely. Capital structure decisions must be determined by managerial judgement
9 and market data in contrast to the exact mathematical formulas resulting from the
10 theories presented in this chapter. Financial theory provides benchmarks and useful
11 data to assist management in capital structure decisions. Capital structure decisions
12 depend critically on each company's own situation and level of business risk as
13 well. The higher the business risk, the lower the debt ratio".²⁴

14 **Q. HOW DOES THE SETTLED CAPITAL STRUCTURE/ROE AT THE**
15 **SUBSIDIARY LEVEL COMPARE TO THE HOLDING COMPANY LEVEL**
16 **OF SEPTEMBER 30, 2021?**

17 A. The capital structure and cost of capital components of Duke-Kentucky and
18 Columbia Gas with the settled cost components applied to the parent company
19 actual capital structure is:

²⁴ *New Regulatory Finance*, page 470.

	Duke-KY	Duke	Columbia	NiSource
Long-Term Debt Capitalization	46.039%	54.074%	44.250%	57.033%
Short-Term Debt Capitalization	2.617%	1.806%	3.110%	2.345%
Equity Capitalization	51.344%	44.119%	52.640%	40.623%
Total Capitalization	100.00%	100.00%	100.00%	100.00%
Applied to Holding Company				
Long-Term Debt Cost	1.683%	1.977%	1.934%	2.492%
Short-Term Debt Cost	0.044%	0.030%	0.040%	0.030%
Equity Rate Cost	4.814%	4.533%	4.922%	4.373%
Weighted Average Cost of Capital-HoldCo	6.540%	6.540%	6.896%	6.896%
Resulting ROE		10.275%		10.765%

Q. WHAT DOES THIS COMPARISON DEMONSTRATE?

A. This comparison demonstrates that by holding the weighted average cost of capital constant, applying the debt cost components derived at the subsidiary level to the consolidated total company debt and then backing into the weighted average equity cost results in an ROE, applied to the holding company equity, of 10.275% and 10.765%. The consequences of the “lower” equity capitalization levels cited by Mr. Kollen actually result in a higher effective ROE at the holding company. I would argue that on an overall basis these companies are getting exactly what the Company is advocating for in this case – a reasonable opportunity to recovery of our actual cost of our capital financing costs.

IV. RATE BASE

Q. PLEASE DESCRIBE MR. KOLLEN’S RECOMMENDATIONS AND ADJUSTMENTS TO RATE BASE.

A. Mr. Kollen recommends three adjustments to cash working capital, including the addition of accounts payable related to construction²⁵, a correction to depreciation expense lag²⁶, and to flow through changes resulting from other OAG

²⁵ Kollen, Page 20

²⁶ Kollen, Page 26

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-03
Page 1 of 1

REQUEST:

Provide a comprehensive explanation surrounding the implications of Atmos Energy's equity ratio prior the February 2021 winter storm on its ability to obtain the \$2.2 billion in debt. If not for the strong equity ratio of Atmos Energy prior to the winter storm, would the Company have been able to obtain the debt financing on favorable terms?

RESPONSE:

The additional \$2.2 billion of long-term debt obtained exclusively to address the extraordinary gas costs of the February 2021 winter storm had a direct impact on our equity to total capitalization. As of March 31, 2021, our equity to total capitalization was 52%. Excluding the incremental debt, our equity capitalization would have been approximately 60%.

There are several factors to consider when attempting to execute favorable terms in a debt financing. The primary factor is the credit rating published by the Rating Agencies such as: Standard and Poors ("S&P") and Moody's. They use cash flow related metrics such as debt/equity ratios and cash flow interest coverage ratios associated with different bond ratings. If these ratios were to deteriorate for a period of time with no clear plan for recovery, our credit ratings would likely be downgraded, resulting in less favorable terms. Our credit ratings prior to the storm were A stable outlook /A1 stable outlook for S&P and Moody's, respectively. In the case of the winter storm, our ratios did weaken, and S&P downgraded our credit rating on February 22, 2021 to A- with a credit watch negative and Moody's kept our A1 rating, but put us on negative outlook. After the issuance, S&P removed the credit watch negative. With the approval of the Texas Railroad Commission Financing order in February, we have a clear plan to reduce our debt and approximate our metrics to pre-storm levels. Also as a result of the financing order, Moody's changed our outlook to Stable.

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-04
Page 1 of 1

REQUEST:

Has the Company attributed any portion of the Division 002 Net Operating Loss ("NOL") asset associated with the February 2021 storm to the NOL requested in this proceeding? If not, provide the following:

- a. Identify the NOL asset recorded in 2021, Division 002 to record the impacts of the February 2021 storm and provide the underlying computation.
- b. Identify the monthly Division 002 NOL balances for the twelve-month period ending September 30, 2021 and included in this case: (i) with the implications of the February 2021 storm; and (ii) without the implications of the February 2021 storm. Provide the underlying documentation for each calculation.
- c. Document how this portion was removed from the balances used in this proceeding

RESPONSE:

- a. Please see Attachment 1.
- b. Please see Attachment 1.
- c. This portion was removed by identifying the extraordinary gas cost due to Winter Storm Uri at March 31st based on the Company's estimate, and trued up at September 30, 2021 based on the Regulatory Assets booked according to the applications that were filed with The Texas Railroad Commission, and with the Kansas Corporation Commission.

ATTACHMENT:

CPAD_2-04_Att1 - Federal NOL URI Adjustments.xlsx

Winter Storm URI Adjustment for TN ARM

Rate Division 002 Shared Services Adjustment Description	Category	Adj Code	Fiscal 2020 9/30/2020	Fiscal 2021 10/31/2020	Fiscal 2021 11/30/2020	Fiscal 2021 12/31/2020	Fiscal 2021 1/31/2021	Fiscal 2021 2/28/2021	Fiscal 2021 3/31/2021	Fiscal 2021 4/30/2021	Fiscal 2021 5/31/2021	Fiscal 2021 6/30/2021	Fiscal 2021 7/31/2021	Fiscal 2021 8/31/2021	Fiscal 2021 9/30/2021
TOTAL FD-NOL Credit Carryforward - Utility	TAX	TAX02U	608,544,074	608,544,074	608,544,074	598,045,312	598,045,312	598,045,312	977,066,724	977,066,724	977,066,724	969,847,887	969,847,887	969,847,887	1,015,494,919
FD-NOL Credit Carryforward - Utility (URI)			-	-	-	-	-	-	439,642,155	439,642,155	439,642,155	439,642,155	439,642,155	439,642,155	441,152,879
FD-NOL Credit Carryforward - Utility Excluding URI			608,544,074	608,544,074	608,544,074	598,045,312	598,045,312	598,045,312	537,424,569	537,424,569	537,424,569	530,205,732	530,205,732	530,205,732	574,342,040
Total Division 002 ADIT pre URI Adjustments			486,923,937	475,955,229	478,040,938	455,720,702	443,747,524	429,489,000	797,890,633	805,207,684	807,907,941	804,899,311	812,004,410	812,191,095	841,973,871
Total Adjusted Division 002 ADIT			486,923,937	475,955,229	478,040,938	455,720,702	443,747,524	429,489,000	358,248,478	365,565,529	368,265,786	365,257,156	372,362,255	372,548,940	400,820,992

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-05
Page 1 of 1

REQUEST:

Refer to File <CPAD_1-09_Att1 - 2022 ARM - Updated.xlsx>, Tab "Schedule WP 7-2" and an updated File <p. ADIT TN ARM Fiscal 2021>, Tab "Div 002".³ Reconcile the values contained in Tab "Div 002" compared with those values contained in Division 002 within the Tab "WP 7-2".

RESPONSE:

The Company provided a fully linked model so that the CPAD is able to see the adjustment in total. The Company has highlighted within that model each area where an adjustment has been made for purposes of convenience, including 002 values. Below is a list of each adjustment and the impacted relied upons in the Company's response to CPAD 1-09.

- DR 1-05, WP 7-2, 7-4 Adjust State-Net Operating Loss to remove Uri Impact
Relied upons Impacted: o. Plant Balances 2021 TN Case.xlsx, p. ADIT TN ARM Fiscal 2021.xlsx
- DR 1-09, WP 7-2, 7-4 Remove SEBP/SERP items from ADIT
Relied upons Impacted: o. Plant Balances 2021 TN Case.xlsx, p. ADIT TN ARM Fiscal 2021.xlsx

³ Atmos Energy's Response to Consumer Advocate DR 1-9, TPUC Docket No. 22-00010 (March 1, 2022).

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-06
Page 1 of 1

REQUEST:

Confirm that the total Short-Term Debt related bank fees incorporated in this filing can be calculated as follows: $(\$446,063,594 * .04\%)$ or \$178,425.

RESPONSE:

The calculated overall cost of capital in this filing is 7.53% with short-term debt accounting for 0.04% of the total. Taking the short-term debt portion of the overall cost of capital and multiplying times total rate base of \$446,063,594 equates to \$178,425.

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-07
Page 1 of 1

REQUEST:

Demonstrate the prudence of the Company's costs and minimal use of Short-Term Debt as incorporated into this case.

RESPONSE:

Please see the Company's responses to CPAD 2-02 and 2-09.

The Company's use of short-term debt falls within the overall consolidated capital structure of Atmos Energy Corporation, which is currently focused on financing in excess of \$2 billion in annual capital investment across its eight state operating footprint. This level of capital investment requires annual access of external capital markets, both debt and equity, as well as reinvestment of over half of its earnings to maintain its debt ratings with the ratings agencies.

As further noted in the Company's response to CPAD 2-09, the capital markets have experienced favorable conditions with historical low coupon rates for long-term debt and which the Company wanted to take advantage of with frequent financing of long-term debt while conditions were available.

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-08
Page 1 of 1

REQUEST:

Provide a list of the terms within the Short-Term Debt agreement(s) which produce the costs as contained in the Company's Response to Consumer Advocate DR No. 1-18.

RESPONSE:

The components of the costs contained in the Company's response to CPAD 1-18 include Interest expense due to commercial paper borrowings, commitment fees for our credit facilities, and bank administration fees of the credit facilities.

Interest Expense of commercial paper:	\$9,758.34
Commitment Fees (a):	\$2,338,121.51
Bank Administration Fees (b):	\$2,338,076.62
Total	\$4,685,956.47

Note (a) Commitment fees are charged by the lender to Atmos Energy to compensate the lender for its commitment to lend.

Facility	Commitment Fees
Credit Agricole – 5 <u>year</u> ; \$1.5 billion	0.1000%
Credit Agricole – 3 <u>year</u> ; \$900 million	0.0900%
Amarillo National Bank - \$50 million	0.1250%
Bank of Texas - \$50 million	0.1250%

Note (b) Bank administration fees are incurred to structure the credit facility with member banks and upfront fees paid to the member banks. These fees are expensed over the life of the facility. The structure fee is paid to the lead banks and is negotiated at the time of the launch of the credit facility. The structuring fees were \$950 thousand for both the \$1.5 billion and \$900 million facility, allocated pro-rata. The upfront fees for both the \$1.5 billion and \$900 million facilities were 0.15%. There were no upfront or structuring fees for the Amarillo National Bank facility. The structuring fee and upfront fee for the Bank of Texas facility totaled \$64,950.

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-09
Page 1 of 1

REQUEST:

Given the apparent fixed fees associated with the Company's Short-Term Debt capability, fully explain why such financing source was not used to a greater extent than it was within the test period.

RESPONSE:

During the test period, the Company experienced favorable conditions in the capital markets with historical low coupon rates for long-term debt and wanted to issue longer term debt in order to take advantage of the capital market conditions. The Company also wanted to maintain liquidity to continue to operate the business that approximated our annual capital expenditure program given the unknowns such as: impact of COVID-19 and a financial crisis like the 2008 financial crisis. We had not contemplated the conflict between Russia and Ukraine during the test period. However, this is an example of an unknown. Interest rates on the 10 Year Treasury have increased from 1.56% on November 1, 2021 to 2.14% on March 14, 2022 (58 bps) and on the 30 Year Treasury increased from 1.96% to 2.47% (51 bps).

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-10
Page 1 of 1

REQUEST:

Identify the source of financing used to support the Company's daily O&M requirements.

RESPONSE:

Please see page 41 of the Company's 2021 10K filed with the Securities and Exchange Commission, in particular the cash flows from financing activities. No specific source of funds for daily financing of O&M requirements exist, rather O&M as well as other funding requirements are managed on an overall basis.

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-11
Page 1 of 1

REQUEST:

Refer to the Response to Consumer Advocate DR No. 1-18, Attachment 1,⁴ and provide the following:

- a. Provide the specific calculation within File <CPAD_1-09_Att1 - 2022 ARM – Updated>⁵ that incorporates the reduction in bank fees of \$740,777.
- b. Identify the account(s) and associated amounts by month associated with the \$4,685,956 in Interest Expense and fees as contained in File <CPAD_1-09_Att1 - 2022 ARM – Updated>.⁶

RESPONSE:

- a. The STD avg rate of 69.89% on WP 9-2 Line 16 column G, is calculated as \$4,685,956 of revised short term debt interest expense and fees after the \$740,777 reduction divided by the STD average daily balance of \$6,704,749. The revised rate of 69.89% is incorporated into both schedules 9 and 9R of the ARM filing and thus impacts the return calculation on both schedules 1 and 1R.
- b. Please see Attachment 1. The adjustment to banking fees of \$740,777 was spread over the months of the test period and therefore will not match the individual months in the general ledger support. The average short term debt rate is not impacted by how this adjustment is spread since the short term debt interest expense and fees used in the formula is the total of the test period expense.

ATTACHMENT:

CPAD_2-11_Att1 - STD Interest Expense and Fees.xlsx

⁴ Atmos Energy's Response to Consumer Advocate DR No. 1-19, Attachment 1, File <CPAD_1-18_Att1 - Short-Term Debt Rate.xls>, TPUC Docket No. 22-00010 (March 1, 2022).

⁵ Atmos Energy's Response to Consumer Advocate DR No. 1-9, Attachment, TPUC Docket No. 22-00010 (March 1, 2022).

⁶ *Id.*

Atmos Energy Corporation - Kentucky/Mid-States (Co050)
Short Term Debt-Interest Expense and Fees
Fiscal Year 2021

Company	Company Description	Account	Account Description	Sub Account	Sub Account Description	Line Description	OCT-20	NOV-20	DEC-20	JAN-21	FEB-21	MAR-21	APR-21	MAY-21	JUN-21	JUL-21	AUG-21	SEP-21	Grand Total	
010	Atmos Regulated Shared Services	4310	Other interest expense	30120	Commitment Fees-Anb	A N B COM FEE	5,294	5,123	5,294	5,308	4,795	5,308	5,137	5,308	5,137	5,308	5,308	5,137	62,459	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	03/01 to 03/30 Credit Ag 5 Year Loan Com Fee	-	-	-	-	-	125,000	-	-	-	-	-	-	125,000	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	03/31 Credit Ag 5 Year Loan Com Fee	-	-	-	-	-	4,167	-	-	-	-	-	-	4,167	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	Bank fees for 1.25 b credit facility-2019 renewal	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	187,200	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	Bank fees for 1.25 b credit facility-2021 renewal	-	-	-	-	-	-	49,127	49,896	49,896	49,896	49,896	49,896	298,609	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	Bank fees for 1.25 b credit facility-new terms	18,182	18,182	18,182	18,182	18,182	18,182	18,182	18,182	18,182	18,182	18,182	18,182	218,182	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	Bank fees for 1.25 b credit facility-old terms	93,135	93,135	93,135	93,135	93,135	93,135	93,135	93,135	93,135	93,135	93,135	93,135	1,117,614	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	CA 900M 3yr 2021	-	-	-	-	-	-	47,002	47,771	47,771	47,771	47,771	47,771	285,859	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	CA Annual admin fee for 1.25 b credit facility	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,000	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	Credit Ag 3 Year Loan Com Fee	-	-	-	-	-	2,250	67,500	69,750	67,500	69,750	69,750	67,500	414,000	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	Credit Ag 5 Year Loan Com Fee	103,333	100,000	103,333	103,333	101,667	-	125,000	129,167	125,000	129,167	129,167	125,000	1,274,167	
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	credit facility adj	-	-	-	-	-	-	(0)	-	-	-	-	-	(0)	
010	Atmos Regulated Shared Services	4310	Other interest expense	30186	Commitment Fees - Mizuho 364 facility	CA 364 facility adj	-	-	-	-	-	92,413	-	-	-	-	-	-	92,413	
010	Atmos Regulated Shared Services	4310	Other interest expense	30186	Commitment Fees - Mizuho 364 facility	Mizuho 600m credit facility	126,017	126,017	126,017	126,017	126,017	126,017	-	-	-	-	-	-	756,103	
010	Atmos Regulated Shared Services	4310	Other interest expense	30186	Commitment Fees - Mizuho 364 facility	Mizuho Comm Fee	64,583	62,500	64,583	64,583	58,333	87,500	-	-	-	-	-	-	402,083	
010	Atmos Regulated Shared Services	4310	Other interest expense	30187	Commitment Fees - Bank of Texas 364 facility	Bank of Texas Comm Fee	4,777	4,623	4,777	4,777	4,315	4,777	4,623	4,777	4,623	4,777	4,777	4,623	56,245	
010	Atmos Regulated Shared Services	4310	Other interest expense	30187	Commitment Fees - Bank of Texas 364 facility	LC fees Bank of Texas	6,250	6,250	6,250	6,250	6,250	6,250	6,250	5,825	5,825	5,825	5,825	5,825	72,875	
010	Atmos Regulated Shared Services	4310	Other interest expense	30171	CP- Goldman Sachs Int Exp	CP- Goldman Sachs Int Exp	-	-	-	-	933	2,800	-	-	-	-	-	-	3,733	
010	Atmos Regulated Shared Services	4310	Other interest expense	30175	CP- Mizuho Int Exp	CP- Mizuho Int Exp	-	-	-	-	933	2,800	-	-	-	-	-	-	3,733	
010	Atmos Regulated Shared Services	4310	Other interest expense	30176	CP- MUFG Int Exp	CP- MUFG Int Exp	-	-	-	-	-	-	-	-	-	-	535	1,757	2,292	
							441,338	435,596	441,338	441,352	434,326	590,365	435,722	443,578	436,836	443,578	444,112	438,593	5,426,733	
							2022 ARM - WP 9-2, Cell J27													
010	Atmos Regulated Shared Services	4310	Other interest expense	30121	Commitment Fee-Credit Agricole (Fmly RBS)	FY21 true up	-	-	-	-	-	-	-	-	-	-	-	(740,777)	(740,777)	
							-	-	-	-	-	-	-	-	-	-	-	-	(740,777)	(740,777)
							CPAD_1-09_Att1-2022 ARM - Updated, Cell J27													
							Updated STD Interest Expense & Fees	441,338	435,596	441,338	441,352	434,326	590,365	435,722	443,578	436,836	443,578	444,112	(302,184)	4,685,956

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-12
Page 1 of 1

REQUEST:

Refer to the Company's Response to Consumer Advocate DR No. 1-19 and respond to the following:

- a. Given that the instructions within the FERC uniform system of accounts requires the attribution of Short-Term Debt as the first source of financing in calculating the Allowance for Funds Used During Construction ("AFUDC") rate, coupled with the fact that the Company's consolidated balance of Short-Term Debt is significantly less than the \$459 million of construction work in progress, what is the rationale for inclusion of Short-Term Debt in the proposed capital structure?
- b. Provide the FERC support for the recognition of the pre-tax return on equity within the AFUDC calculation.
- c. Has the Company adjusted either the AFUDC revenue or the capitalized plant in service for its revised cost of Short-Term Debt cost of 69.89% from 80.94%? If not, would such an adjustment be appropriate?

RESPONSE:

- a. The inclusion of short-term debt is based on the methodologies approved in Docket Nos. 14-00146 and 18-00012.
- b. The use of a pre-tax cost of equity is appropriate because the AFUDC calculation is provided within the Uniform System of Accounts to recover the full cost of funding construction. Similar to other rate base, this necessitates a pre-tax cost of capital to ensure recovery of financing costs.
- c. The Company has not adjusted the AFUDC revenue or the capitalized plant to reflect the short-term debt costs identified in the Company's response to CPAD 1-18 (as provided in the attachment to CPAD 1-09). As suggested in subpart (a) of this question, short-term debt did very little to drive the actual AFUDC recorded during the test period due to it being below construction work in progress, thus any adjustment would be insignificant. However, if CAPD insists that an adjustment be made the Company would propose that it be made and booked in FY 2022 to AFUDC/overhead capitalized and picked up in the FY 2022 ARM calculation true-up.

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-13
Page 1 of 1

REQUEST:

Refer to the Company's Response to Consumer Advocate DR No. 1-20 and respond to the following:

- a. The response to part (a) indicates that a true-up adjustment is recorded to the financial statements after the filing of federal and state tax returns. However, despite the request for such information in Consumer Advocate DR No. 1-20 part (a), no such documentation was provided. Provide the September 2021 entry used to record amounts to Accumulated Deferred Income Tax Liability, inclusive of any recordings to the Deferred Tax asset, as well as those amounts recorded to current and deferred tax expense which trues-up the Company's 2020 operating results.
- b. Given that the annual true-up entries apply to the preceding period, what is the rationale for not adjusting prior period Accumulated Deferred Income Tax ("ADIT") balances to reflect the amounts of the true-up entry as if they were precisely recorded in the periods in which they were incurred?

RESPONSE:

- a. Please see Attachment 1 for the entry to illustrate the return to provision true-ups booked for September 2021, based on the FY2020 returns filed in FY2021. Please note this entry is for illustration purpose only as per the Company's response to CPAD 1-20 subpart (a), "A separate journal entry and workpapers specific to the true-ups is not available. The true-ups calculations and journal entries are a component of the overall workpapers and journal entries to record the following year provision for income tax expense".
- b. The amounts of the true-up entry booked based on how the actual tax return is filed is properly reflected in the period when the return is filed when all information became available, including reflecting the impacts in the Accumulated Deferred Income Tax ("ADIT") balances. The timeline of this recording is in sync with the timeline when a company makes estimated tax payments based on provisional calculations and the finalized tax calculations when the return is duly filed. Accordingly the ADIT balance of each period consistently include a true up component based on the actual return results as per the return's due date which is in the period following the period of the actual operations.

ATTACHMENT:

CPAD 2-13_Att1 - Return to Provision Summary.xlsx

DR Set 2-13
ADIT True up adjustment with NOL carryforward Entry for Illustration
Purpose 9-30-21
DIV 093

	Div 002/093 Deferred Pool	Div 093 Deferred Pool	
Dr. Deferred Tax Asset - NOL	400,507		
Cr. Deferred Tax Liability		400,507	FY21 Activity relating to FY20 Return to Provision Adjustment

DR Set 2-13
ADIT True up adjustment Summary 9-30-21
DIV 093

FY21 Accumulated Deferred Income Tax Summary

	Div 093 Deferred Pool	DIV 093 Deferred per Relied Upon	Difference	
FY21 Opening Balance	(69,668,489)	(69,664,870)	3,619	<i>Balance related to ADIT item ACC04 MIP/VPP Accrual that is excluded from rate base</i>
'21 Activity relating to FY20 Return to Provision Adjustmen	(400,507)			
FY21 Deferred Activity	(5,064,559)			
FY21 Ending Deferred	(75,133,555)	(75,118,100)	15,455	<i>Balance related to ADIT item ACC04 MIP/VPP Accrual that is excluded from rate base</i>

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-14
Page 1 of 1

REQUEST:

Refer to the Company's Response to Consumer Advocate DR No. 1-22. The response refers to the \$2.96 million in credits related to the amortization of excess deferred income taxes. Identify where, in the application, this credit is reflected for purposes of computing the Company's test period revenue requirement.

RESPONSE:

This credit to tax expense of \$2.96M is directly related to the amortization of excess deferred income taxes of \$6,112,798 on Sch 1 Line 33. The Company also added back a calculated amount of \$3,534,923 of excess deferred income taxes returned to customers in fiscal 2021 to revenues on Sch 2 lines 6 and 7, which directly reduces the ARRR calculation on Sch 1R.

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-15
Page 1 of 1

REQUEST:

The purpose of this request is to determine whether the manner in which Income Tax Expense and the balance of ADIT are calculated consistently within the revenue requirement. Refer to Company's Responses to Consumer Advocate DR Nos. 1-20, 1-22 and 1-23. Respond to the following:

- a. Confirm that for purposes of calculating Income Tax Expense, all book tax timing differences are normalized.
- b. Provide a comprehensive explanation indicating whether the ADIT balances as reflected in the filing are determined consistent with (i) the manner in which Deferred Income Tax Expense is recorded on the books of Atmos, or (ii) the manner in which Deferred Income Tax Expense is reflected within the current revenue requirement.
- c. Identify all book/tax timing differences which are 'flowed through' for purposes of calculating taxable income reflected on (i) the financial books of Atmos/Tennessee, and (ii) the regulatory books of Atmos/Tennessee.

RESPONSE:

- a. The Company confirms that for purposes of calculating Income Tax Expense, all book tax timing differences are normalized.
- b. The ADIT balances as reflected in the filing are relied upon the ADIT balances recorded on the books, with modifications based on the ARM model as per the Stipulation and Settlement Agreement under Docket Nos. 14-00146 and 18-00112 for the purpose to be consistent with the manner in which the Deferred Income Tax Expense is calculated within the current revenue requirement.
- c. As noted in the response to subpart (a), all book tax timing differences are normalized and there is no "flowed through" timing differences for purpose of calculating total taxable income for financial book purpose or for regulatory filing purpose.

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-16
Page 1 of 1

REQUEST:

Refer to File <O&M Summary Historic Year>, Tab "O&M 002 FY21" filed in this Docket.⁷ Specifically, refer to account 9230 subaccount 07497, Admin Fee SERP. Confirm that the Tennessee allocated portion of the ~\$208k for the year ending Sept. 2021 is not included for cost recovery. If not confirmed, provide the Company's rationale for inclusion of this subaccount in the Company's Cost of Service given the adjustment to remove other SERP expenses on line 25 on <WP 4-1>.

RESPONSE:

Subaccount 07497, Admin Fee SERP, is used to track administration fees associated with the Company's SERP plan. The Company agrees that \$8,619.92 (4.13% of \$208,898) should be removed from Operation & Maintenance Expense on both Sch 1 and Sch 1R in this proceeding.

⁷ Atmos Energy's Response to Consumer Advocate DR 1-9, Relied Upons, TPUC Docket No. 22-00010 (March 1, 2022).

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 2
Question No. 2-17
Page 1 of 1

REQUEST:

Refer to the Response to Consumer Advocate DR No. 1-9. For each adjustment identified within this response, provide a reconciliation and supporting workpapers identifying the original item total and a reconciliation to the revised item total.

RESPONSE:

The Company provided a fully linked model so that the CPAD is able to see the adjustment in total. The Company has highlighted within that model each area where an adjustment has been made for purposes of convenience. Below is a list of each adjustment and the impacted relied upons in the Company's response to CPAD 1-09.

- DR 1-05, WP 7-2, 7-4 Adjust State-Net Operating Loss to remove Uri Impact
Relied upons Impacted: o. Plant Balances 2021 TN Case.xlsx, p. ADIT TN ARM Fiscal 2021.xlsx
- DR 1-09, WP 7-2, 7-4 Remove SEBP/SERP items from ADIT
Relied upons Impacted: o. Plant Balances 2021 TN Case.xlsx, p. ADIT TN ARM Fiscal 2021.xlsx
- DR 1-13, WP 7-10 Exclude interest and RWIP interest from avg Reg Asset
No Relied upon Impacted
- DR 1-18, WP 9-2 Short-Term Debt Rate Adjusted
Secondary relied upon: Capital Structure 09-30-21_Consolidated_Excluding \$2.2BN_.xlsm
- DR 1-28, Sch 4 Remove legal fees not related to Tennessee
No Relied upon Impacted
- DR 1-29, WP 7-8 Remove capitalized SERP costs
Relied upons Impacted: v. TN Minimum Filing Requirements #38 12 months Sep-21.xlsx