

1 accounting experience with a large local accounting firm based in Dallas, Texas. In
2 1989, I accepted a position in the internal audit group with Atmos Energy. I was
3 promoted to positions of increasing responsibility within the Atmos Energy finance
4 team during my first nine years with the Company. I joined Atmos Energy's
5 Colorado-Kansas operations as Vice President & Controller in June of 1998 and,
6 effective December 1, 2001, was named Vice President of Rates & Regulatory
7 Affairs. I assumed my current position on August 1, 2007.

8 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?**

9 A. Yes. I am licensed by the State of Texas as a Certified Public Accountant ("CPA").

10 **Q. WHAT ARE YOUR RESPONSIBILITIES AT ATMOS ENERGY?**

11 A. I am responsible for leading and directing the rates and regulatory activity in Atmos
12 Energy's eight-state service area. This responsibility includes developing the
13 strategy, preparing the revenue deficiency filings, and managing the overall
14 ratemaking process for the Company. For the past twenty years, I have managed
15 Company-specific dockets and other commission proceedings in Colorado, Kansas,
16 Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. I also managed
17 Company-specific dockets in Georgia, Illinois, Iowa, and Missouri relating to
18 regulated assets that the Company has since sold.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE TENNESSEE**
2 **PUBLIC UTILITY COMMISSION (“COMMISSION”) OR ANY OTHER**
3 **REGULATORY COMMISSION?**

4 A. Yes, I filed testimony in Docket No. 14-00146¹ and Docket No. 18-00034². I have
5 submitted testimony before the Kansas Corporation Commission (“KCC”) in five
6 general rate case proceedings³ and provided oral comments to the KCC in a rules
7 investigation.⁴ I have also submitted testimony before the Kentucky Public Service
8 Commission in three general rate cases⁵ as well as supported the Company’s
9 position in the Kentucky Public Service Commission’s Investigation of the Tax Cut
10 and Job’s Act on the Rates of Investor Owned Utilities⁶. I have also submitted
11 testimony before the Mississippi Public Service Commission to amend our tariffs
12 to add a supplemental growth rider,⁷ to amend our formula rate tariff to establish a
13 system integrity plan and establish a rural development pilot program,⁸ and to
14 request a system integrity rider and support our capital budget for 2015 through
15 2024.⁹ I have also submitted testimony before the Louisiana Public Service
16 Commission to amend our formula rate making tariffs to reduce lag related to
17 system integrity investment as well as reaffirm our existing formula rate making

¹ *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 Mechanism under T.C.A 65-5-103(d)(6)*, Docket No. 14-00146.

² *In re: Response of Atmos Energy Corporation to the Commission’s Order Opening an Investigation and Requiring Deferred Accounting Treatment*, Docket No. 18-00034.

³ Docket Nos. 03-ATMG-1036-RTS, 08-ATMG-280-RTS, 10-ATMG-495-RTS, 12-ATMG-564-RTS, 14-ATMG-320-RTS.

⁴ Docket No. 02-GIMX-211-GIV, General Investigation of the Cold Weather Rule.

⁵ Case No. 2021-00214, Case No. 2018-00281, Case No. 2017-00349.

⁶ Case No. 2017-00481.

⁷ Docket No. 2013-UN-023.

⁸ Docket No. 2014-UN-117.

⁹ Docket No. 2015-UN-049.

1 tariffs.¹⁰ Finally, I filed testimony before the Colorado Public Utilities Commission
2 numerous times, including the Company's prior general rate case proceedings;¹¹
3 gas prudence reviews;¹² a Phase II class cost of service/rate design proceeding;¹³ a
4 transportation terms & conditions proceeding;¹⁴ an upstream gas transportation
5 matter;¹⁵ a complaint proceeding regarding upstream gas transportation;¹⁶ an
6 Advanced Metering Infrastructure surcharge matter;¹⁷ a proposal to extend the pilot
7 related to recovering uncollectible gas costs through the Gas Cost Adjustment
8 ("GCA") mechanism;¹⁸ the Company's proposal to put into effect a System Safety
9 and Integrity Plan;¹⁹ and the Company's application for a Certificate of Public
10 Convenience and Necessity to implement the Greeley Building Project.²⁰

11 **II. PURPOSE OF REBUTTAL TESTIMONY**

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to address concerns raised by Consumer
14 Advocate Unit of the Financial Division of the Tennessee Attorney General's Office
15 ("Consumer Advocate" or "CA") witness David N. Dittmore. In particular, I
16 address his concerns related to the cash working capital component of rate base²¹

¹⁰ Docket No. U-32987 (2014) and Docket No. U-35535 (2020).

¹¹ Proceeding Nos. 00S-668G, 09AL-507G, 13AL-0496G, 14AL-0300G, 15AL-0299G, 17AL-0429G.

¹² Proceeding Nos. 00P-296G and 03P-229G.

¹³ Proceeding No. 02S-411G.

¹⁴ Proceeding No. 02S-442G.

¹⁵ Proceeding No. 04A-275G.

¹⁶ Proceeding No. 08F-033G.

¹⁷ Proceeding No. 10AL-822G.

¹⁸ Proceeding No. 12AL-1003G.

¹⁹ Proceeding No. 12AL-1139G.

²⁰ Proceeding No. 13A-0153G.

²¹ Direct Testimony of David N. Dittmore, page 8, line 5-9.

1 and his modification to the Company's proposed capital structure.²² I also support,
2 the change to take into account the impact of federal income taxes on the State Net
3 Operating Loss item ("TN State NOL") that was not included in an updated model
4 provided with CA 1-09.

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

6 A. Yes. I sponsor Rebuttal Exhibits JTC-1 – JTC-3. Mr. William Matthews sponsors
7 the Annual Review Mechanism ("ARM") revenue requirement model as Exhibit
8 WDM-R-1.

9 **III. CASH WORKING CAPITAL**

10 **Q. PLEASE EXPLAIN THE PURPOSE OF A LEAD-LAG ANALYSIS FOR**
11 **USE IN INCLUDING A CASH WORKING CAPITAL ALLOWANCE IN**
12 **RATE BASE.**

13 A. Rate base is the value of invested capital, including all items used to provide utility
14 service. Cash working capital is the capital investment in addition to other rate base
15 items that is required to bridge the gap between when cash is paid for expenses
16 necessary to provide service and when cash is received from customers for that
17 service. A lead-lag analysis is a method of measuring the amount of cash working
18 capital used to provide utility service. This analysis compares two different lags.
19 The lag between (1) the provision of service to customers and the collection of cash
20 from customers is compared to the lag between (2) the recording of expenses and
21 the payment of cash by the company for those expenses.

²² See *id.* at pp. 10-11, as clarified in response to Company discovery 1-03 wherein Mr. Dittmore states that "The issue is whether a 69% cost rate for Short-Term debt is a reasonable cost to be incurred by customers."

1 **Q. PLEASE DESCRIBE MR. DITTEMORE’S PROPOSED ADJUSTMENT TO**
2 **THE LEAD-LAG ANALYSIS METHODOLOGY.**

3 A. Mr. Dittmore states that, “these [depreciation and return on equity] non-cash items
4 should be removed from the computation of the net expense lead days. Further,
5 these non-cash items should be eliminated in the calculation of the daily cost of
6 service upon which the net revenue lag/expense lead days are applied”²³. He bases
7 his opinion on the belief that cash is not required to finance depreciation and the
8 return on equity, contending that there are no cash outlays associated with these
9 costs.

10 **Q. DID MR. DITTEMORE PROVIDE ANY REFERENCES TO AUTHORITY**
11 **RELATED TO HIS PROPOSED CHANGE TO THE CASH WORKING**
12 **CAPITAL METHODOLOGY?**

13 A. In response to Company data request ATO 1-01 Mr. Dittmore referred to the work
14 of Leonard Saul Goodman.²⁴ He also referred to a litigated Chattanooga Gas
15 Company (“Chattanooga”) case²⁵ and to decisions from other jurisdictions that
16 align with his proposed methodology.

17 **Q. DO YOU AGREE WITH MR. DITTEMORE’S PROPOSED CHANGE IN**
18 **METHODOLOGY FOR CALCULATING CASH WORKING CAPITAL?**

19 A. No. As further explained in response to CA 1-30,²⁶ the Company continues to

²³ See *id.* at p. 8, lines 19-23.

²⁴ LEONARD SAUL GOODMAN, THE PROCESS OF RATEMAKING VOL. II, p. 832 (Public Utility Reports, Inc. 1998).

²⁵ *In re: Chattanooga Gas Company Petition for Approval of an Adjustment In Rates and Tariffs; The Termination of the AUA Mechanism and the Related Tariff Changes and Revenue Deficiency Recovery; and An Annual Rate Review Mechanism*, Docket No. 18-00017.

²⁶ CA 1-30 is included as Rebuttal Exhibit JTC-R-1

1 believe that the utilization of the methodology agreed to in Docket Nos. 14-00146
2 and 18-00112 is appropriate and that there is no reason to abandon a methodology
3 on a selective basis in a formula rate proceeding that is but one component of an
4 overall agreement that strikes the right balance between the customer and the
5 Company. As further noted below, there are components of the Chattanooga rate
6 methodologies that differ from Atmos Energy's methodologies (i.e. incentive
7 compensation recovery).

8 **Q. IS DEPRECIATION EXPENSE PROPERLY INCLUDED IN A LEAD-LAG**
9 **STUDY?**

10 A. Yes, because the payment for the asset precedes the receipt of service from the asset
11 and the recording of depreciation expense. The lag between payment for the asset
12 and the recording of depreciation expense is recognized by including net plant in
13 service in rate base.

14 **Q. DOES INCLUSION OF PLANT IN SERVICE IN RATE BASE SUFFICE TO**
15 **PROPERLY ACCOUNT FOR THE ENTIRE LAG RELATING TO**
16 **DEPRECIATION?**

17 A. No. The inclusion in rate base of plant in service does not recognize the subsequent
18 lag from the provision of service to the receipt of cash for that service – which is
19 the entire point of including depreciation in the cash working capital for ratemaking
20 purposes. By including depreciation expense in the lead-lag study with a zero
21 expense lag, the lead-lag study properly recognizes the subsequent revenue lag on

1 recovering cash related to investment in plant assets. In other words, the investment
2 in an asset is included in rate base as net plant in service until depreciation is
3 recorded on that asset. Recording depreciation removes the asset from rate base,
4 even though cash has not been received to pay for the service provided by the asset,
5 unless the revenue lag on depreciation expense is included in cash working capital
6 through the lead-lag study.

7 **Q. DOES INCLUSION OF DEPRECIATION EXPENSE IN THE LEAD-LAG**
8 **STUDY RECOGNIZE THAT INVESTOR FUNDING HAS OCCURED?**

9 A. Yes. The inclusion of depreciation expense in a lead-lag study and assigning a zero
10 payment lag, recognizes that the investor funding has occurred, but that it has not
11 been recovered from the customer.²⁷ Even though depreciation expense is recorded
12 as a cost, *the recovery is delayed for the duration of the billing lag*. The cumulative
13 amount of depreciation expense (accumulated depreciation) is a measure of the total
14 consumption of capital investment to date. As the expense is recorded, equal
15 revenues are recoverable from customers as payment to investors and the
16 accumulated provision is deducted from rate base. The recording of expense
17 presumes recovery, but in fact it is offset with an entry to accounts receivable from
18 customers. The expense is recorded in one period and the receipt of funds, the
19 recovery, occurs in the subsequent month.

²⁷ Accounting For Public Utilities, Chapter 5 Working Capital Component of Rate Base, pp. 5-23.

1 **Q. TURNING NOW TO MR. DITTEMORE’S CITATION, DO YOU AGREE**
2 **WITH THE DESCRIPTION OF LEAD-LAG STUDY PROVIDED IN “THE**
3 **PROCESS OF RATEMAKING VOL. II”²⁸?**

4 A. I agree with Mr. Goodman’s description of lead-lag study. What I disagree with,
5 however, is how Mr. Dittmore applies Mr. Goodman’s description. As stated
6 above, I do not contend that there is a cash outlay for depreciation expense at the
7 time depreciation expense is recorded. However, as supported by Mr. Goodman’s
8 description of lead-lag studies, there is an impact to a company’s cash working
9 capital between the day a bill is rendered and payment is received from the
10 customer. A component of the bill rendered to the customer includes recovery of
11 depreciation expense. Therefore the inclusion in the revenue lag portion of the lead-
12 lag study is appropriate.

13 **Q. DO YOU AGREE WITH MR. DITTEMORE’S RELIANCE ON A**
14 **LITIGATED TENNESSEE CASE AND LITIGATED CASES OUTSIDE OF**
15 **TENNESSEE AS APPROPRIATE FOR CHANGING A METHODOLOGY**
16 **IN A FORMULA RATE PROCEEDING?**

17 A. No. Chattanooga Docket No. 18-00017 had many issues that were evaluated, not
18 just the appropriate methodology for establishing cash working capital in rate
19 base.²⁹ Likewise, the Columbia case in Kentucky is a full rate case that considered

²⁸ Page 832, wherein it states in part, “The working capital allowance in rate base covers only those cash funds and temporary securities that must be held by the company for operating expenses, rents, and taxes (other than income taxes) prior to collection of revenues from ratepayers...In a lead-lag study, the witness measures the number of days before expenses must be paid (“expense lead” or “lead days”) against the days before revenues are received (“revenue lag” or “lag days”).

²⁹ For example, Chattanooga proposed to expand recovery of incentive compensation but only received 50% of its short-term incentive compensation. Atmos Energy approved methodologies currently exclude 100% of short-term incentive compensation showing that there is nothing unusual about treating the same accounting issue differently for different Tennessee utilities.

1 many issues but was resolved via a settlement³⁰ and therefore there was lots of give
2 and take among various issues not simply a focus on one methodology. As a result,
3 the negotiated settlement of this issue is not indicative of what methodology is
4 analytically proper. More importantly, the methodology applied in the Company's
5 ARM reflects the approved methodology. There are numerous items impacting cost
6 of service that are precluded from review under the ARM as approved
7 methodologies. It would be inappropriate to allow the Consumer Advocate to
8 selectively point to litigated or settled outcomes in other proceedings to handpick
9 specific items in its favor to challenge an approved methodology under the
10 Company's ARM when the entire purpose of the ARM is to provide an abbreviated
11 rate update mechanism based on methodologies approved in a prior rate case.

12 **Q. DID YOU OBSERVE ANY ISSUES WITH MR. DITTEMORE'S RELIANCE**
13 **ON THE ILLINOIS ORDER THAT WAS PROVIDED IN RESPONSE TO**
14 **DISCOVERY?**

15 A. Yes, while he offers an Illinois case in support of the proposed methodology change,
16 I do not see in the order a discussion of the parties' positions. Thus, it would appear
17 that the inclusion or exclusion of non-cash considerations in a lead-lag study was
18 not in dispute before the Illinois Commerce Commission. The Order from the
19 Illinois case is therefore irrelevant to this issue.

³⁰ I do acknowledge that the Kentucky Commission foreshadows that the exclusion of noncash items in a utilities future case could be a methodology adopted. However, any change would be within the context of a case where multiple rate issues are evaluated.

1 **Q. ARE THERE OTHER REGULATORY AUTHORITIES THAT TAKE**
2 **DIFFERENT POSITIONS THAN THOSE CITED BY MR. DITTEMORE**
3 **ON THE COMPONENTS OF A LEAD-LAG STUDY?**

4 A. Yes, there is no single approach used by state regulatory commissions for the
5 determination of regulated utilities' working capital requirements. The North
6 Carolina Utilities Commission ("NCUC") opened Docket M100 Sub 137 to
7 investigate certain aspects of lead-lag studies used in general rate cases. Among
8 the findings the NCUC concluded in its May 5, 2015 order that, "As a general rule,
9 in future determinations of cash working capital in general rate case proceedings,
10 the return on equity component should be included, in full, in all future lead-lag
11 studies and that said component should be assigned zero lead or lag days." and "As
12 a general rule, in future determinations of cash working capital in general rate case
13 proceedings, depreciation expense and other purported non-cash items should be
14 included in the cash working capital requirement determinations."³¹

15 **Q. IS IT APPROPRIATE FOR THIS COMMISSION TO TREAT THE**
16 **COMPONENTS OF A LEAD-LAG STUDY DIFFERENTLY AMONG**
17 **TENNESSEE UTILITIES?**

18 A. I do not think changing methodologies for the sake of uniformity is necessary. Just
19 because exclusion of return on equity was the position of the Commission adopted
20 in Docket No. 18-00017 it should not be a forgone conclusion that a similar position
21 should be adopted in this docket. The current lead-lag methodology in this
22 proceeding was part of the bundle of practices adopted in Docket No. 14-00146 and

³¹ North Carolina Utilities Commission, Docket No. M-100, Sub 137, Order Ruling on Lead-Lag Study Procedure

1 the Company is not proposing a change to that methodology.

2 **Q. DO YOU HAVE ANY OTHER CONCERNS WITH THE PROPOSED**
3 **CHANGE IN METHODOLOGY?**

4 A. Yes. In Docket No. 16-00013 the Consumer Advocate's witness raised the issue of
5 being bound to the methodologies established in the Company's last rate proceeding
6 (Docket No. 14-00146), arguing that the methodologies established should not be
7 binding upon the Consumer Advocate in reviewing the Company's ARM filing,
8 characterizing it as a "threshold issue".³²

9 **Q. HOW DID THE COMMISSION RESPOND TO THIS ARGUMENT?**

10 A. Commission stated in part, "The methodologies adopted in Docket No. 14-00146
11 are applicable for the purpose of implementing the Company's approved ARM.".³³

12 **Q. DOES MR. DITTEMORE ACKNOWLEDGE THAT THE COMPANY HAS**
13 **FOLLOWED THE APPROVED METHODOLOGY REGARDING CASH**
14 **WORKING CAPITAL?**

15 A. Yes.³⁴ Moreover, he does not offer any evidence as to why the Commission should
16 not continue to follow the clear language of Docket No. 16-00013 or address why
17 the Commission should consider this change in methodology in light of the
18 Consumer Advocate's strenuous objections to what were perceived changes to
19 methodologies by the Company in prior proceedings.³⁵

³² *In re: Petition of Atmos Energy Corporation for Approval of its 2016 Annual Rate Review Filing Pursuant to Tenn. Code Ann. Section 65-5-103(d)(6)*, Direct Testimony of William H. Novak, pp. 4-5 (April 11, 2016).

³³ *In re: Petition of Atmos Energy Corporation for Approval of its 2016 Annual Rate Review Filing Pursuant to Tenn. Code Ann. Section 65-5-103(d)(6)*, Order Approving 2016 Annual Rate Review Filing, Findings and Conclusions Paragraph 1 (June 13, 2016)

³⁴ Direct Testimony of David N. Dittemore, p. 8, lines 10-12

³⁵ *In re: Petition of Atmos Energy Corporation for Approval of its 2016 Annual Rate Review Filing Pursuant to Tenn. Code Ann. Section 65-5-103(d)(6)* Docket No. 16-00013, Direct Testimony of William H. Novak,

1 not suggesting in his testimony that Short-Term debt should be permanently
2 excluded from the capital structure, nor is his testimony that Short-Term debt
3 should be automatically excluded when the cost of Short-Term debt exceeds the
4 cost of Long-Term debt. The issue is whether a 69% cost rate for Short-Term debt
5 is a reasonable cost to be incurred by customers.³⁷

6 **Q. DO YOU AGREE WITH MR. DITTEMORE'S PROPOSED**
7 **ADJUSTMENT?**

8 A. I do not agree with his proposed adjustment to exclude short-term debt from the
9 capital structure.

10 **Q. WHY NOT?**

11 A. Mr. Dittmore's proposed adjustment to exclude the Company's actual cost of
12 short-term debt overlooks the changes to the Company's cost of long-term debt and
13 overall cost of capital over the past three ARM filings. In the final year of the future
14 test period ARM period ended in a May 31, 2020 the overall rate of return included
15 in establishing rates was 7.79%,³⁸ in the September 30, 2020 test year ARM the
16 overall rate of return had declined to 7.62%,³⁹ and in this filing for the period ended
17 September 30, 2021 it has declined to 7.53%.⁴⁰ I have included the referenced
18 Schedule 9's as Exhibit JTC-R-2.

³⁷ ATO 1-03 is included as Exhibit JTC-R-3

³⁸ See In re: Petition of Atmos Energy Corporation for Approval of its 2019 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 19-00018, Schedule 9 filed as Exhibit MAM-R-1.

³⁹ See In re: Petition of Atmos Energy Corporation for Approval of its 2021 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 21-00019, Schedule 9 filed as Exhibit WDM-R-1.

⁴⁰ See In re: Petition of Atmos Energy Corporation for Approval of its 2022 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 22-00010, Schedule 9, filed as Exhibit WDM-R-1.

1 **Q. WHY IS THE FILED OVERALL COST OF CAPITAL AN IMPORTANT**
2 **CONSIDERATION?**

3 A. As noted in Company's response to CA 2-07, included for reference as Exhibit JTC-
4 R-1, the Company's use of short-term debt falls within the overall consolidated
5 capital structure of Atmos Energy Corporation, which is currently focused on
6 financing in excess of \$2 billion in annual capital investment across its eight-state
7 operating footprint. This level of capital investment requires annual access of
8 external capital markets, both debt and equity, as well as reinvestment of over half
9 of its earnings to maintain its debt ratings with the ratings agencies. As further
10 noted in the Company's response to CA 2-09, the capital markets have experienced
11 favorable conditions with historical low coupon rates for long-term debt and which
12 the Company wanted to take advantage of with frequent financing of long-term
13 debt while conditions were available.

14 **Q. HAS THE COMPANY DONE ANYTHING ELSE TO SECURE LOWER**
15 **LONG-TERM FINANCING?**

16 A. Yes, the Company has entered into forward starting interest rate swaps to effectively
17 fix the Treasury yield component associated with \$1.850 billion of planned
18 issuances over the next five fiscal years.⁴¹ Given the recent Federal Reserve recent
19 pronouncements and the collateral impact on treasury yields, this should result in
20 savings to the customer as the Company accesses the long-term debt capital
21 markets.

⁴¹ Liquidity and Capital Resources section of 2021 10-K.

1 **Q. IS MAINTAINING CREDIT FACILITIES NECESSARY IF THE COMPANY**
2 **IS NOT UTILIZING SHORT-TERM DEBT IN A MANNER THAT**
3 **ENABLES A MORE REASONABLE IMBEDDED RATE TO BE**
4 **CALCLATED?**

5 A. Yes. As stated in response to CA 2-09⁴², during the test period, the Company
6 experienced favorable conditions in the capital markets with historical low coupon
7 rates for long-term debt and wanted to issue longer term debt in order to take
8 advantage of the capital market conditions. The Company also wanted to maintain
9 liquidity to continue to operate the business that approximated our annual capital
10 expenditure program given the unknowns such as: impact of COVID-19 and a
11 financial crisis like the 2008 financial crisis. We had not contemplated the conflict
12 between Russia and Ukraine during the test period. However, this is an example of
13 an unknown. Interest rates on the 10 Year Treasury have increased from 1.56% on
14 November 1, 2021 to 2.14% on March 14, 2022 (58 bps) and on the 30 Year
15 Treasury increased from 1.96% to 2.47% (51 bps).

16 **Q. WHAT IS THE IMPACT OF HAVING LOWER DAILY SHORT-TERM**
17 **DEBT OUTSTANDING ON THE CALCULATION OF THE COST FOR**
18 **THE PERIOD?**

19 A. The impact of being more aggressive in securing long-term debt at these favorable
20 long-term rates is to have fewer short-term debt dollars to spread the fixed cost of
21 maintaining credit facilities, thus resulting in a higher perceived rate. However,
22 although the calculated rate is 69%, the impact on the filing is \$178,000 because it

⁴² Included in Exhibit JTC-R-1.

1 doesn't have a significant impact on the overall capital structure.

2 **V. TN STATE NOL**

3 **Q. HAS THE COMPANY PROPOSED TO INCLUDE ANY WINTER STORM**
4 **URI COSTS?**

5 A. No. As further explained in the direct testimony of Mr. William D. Matthews⁴³, the
6 Company has sought to exclude the impact of Winter Storm Uri because the storm
7 created extraordinary gas costs in Colorado, Kansas, and Texas that generated net
8 operating losses recorded at the corporate level but had no material impact on
9 Tennessee gas costs.

10 **Q. DID MR. DITTEMORE RAISE ANY ISSUES RELATED TO WINTER**
11 **STORM URI IN DISCOVERY?**

12 A. Yes. Mr. Dittmore asked in discovery request CA 1-05 for supporting
13 documentation and calculations for the requested State-Net Operating Loss
14 category. In preparing the response it was learned that the Company had not
15 removed the impact on the TN State-Net Operating Loss that related to Winter
16 Storm Uri and revised our requested amount of net State NOL from \$11.5 million
17 to \$4.9 million. Mr. Matthews has included this adjustment in his Exhibit WDM-
18 R-1.

19 **Q. IS ANOTHER CORRECTION NECESSARY TO PROPERLY REFLECT**
20 **THE TN STATE-NET OPERATING LOSS?**

21 A. Unfortunately yes. In preparing the original response regarding the TN State-Net
22 Operating Loss, the Company did not account for the interplay between the Federal

⁴³ Direct Testimony of William D. Matthews, p. 13, line 18 – p. 14, line 8.

1 NOL and the State NOL. When this is properly accounted for, the State NOL
2 should have been adjusted up 21% as it was updated to reflect the removal of the
3 impact of Winter Storm Uri, resulting in a \$6.6 million deferred tax asset rather
4 than the originally revised \$4.9 million deferred tax asset. Mr. Matthews included
5 this adjustment in his Exhibit WDM-R-1.

6 **Q. WHY ARE YOU RAISING THIS ISSUE NOW?**

7 A. This is part of the approved methodology and is an adjustment necessary to comply
8 with our ARM tariff methodologies.

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

10 A. Yes.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY CORPORATION)
FOR APPROVAL OF ITS 2022 ANNUAL RATE) DOCKET NO. 22-00010
REVIEW FILING PURSUANT TO TENN.)
CODE ANN. § 65-5-103(d)(6))

VERIFICATION

STATE OF TEXAS)

COUNTY OF DALLAS)

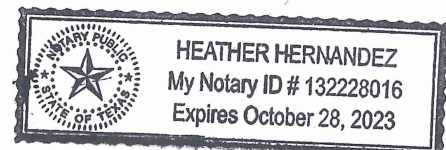
I, Joe T. Christian, being first duly sworn, state that I am the Director of Rates and Regulatory Affairs for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, that the Rebuttal Testimony of Joe T. Christian in support of Atmos Energy Corporation's filing is true and correct to the best of my knowledge, information and belief.


Joe T. Christian

Sworn and subscribed before me this 18 day of April, 2022.


Notary Public

My Commission Expires: 10/28/2023



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

REQUEST:

Refer to the Petition's Relied Upons, File <p. ADIT TN ARM Fiscal 2021.xlsx>, Tab "Div 093" and respond to the following:

- a. Provide all supporting documentation and calculations supporting the \$11,452,512 balance of ADIT associated with the State-Net Operating Loss category for September 2021.
- b. Provide a comprehensive discussion of the nature of the timing difference "State Bonus Depreciation".
- c. Provide the documentation and supporting calculations for the September 2021 balance of "State Bonus Depreciation".

RESPONSE:

- a. Please see Attachment 1. Please see the updated amount included in the Company's response to CPAD 1-09.
- b. Tennessee has fully decoupled from the federal accelerated depreciation provisions under IRC 168(k) such as bonus depreciation. This results in the federal and state depreciation calculations adjustments to differ in current periods. The deferred tax asset for state bonus depreciation represents state depreciation deductions that were decoupled from federal bonus depreciation but will be able to deduct in future periods throughout the asset life.
- c. Please see Attachment 2.

ATTACHMENTS:

CPAD_1-05_Att1 - State NOL.xlsx
CPAD_1-05_Att2 - State Bonus Depreciation.xlsx

Atmos Energy Corporation

TN Docket No. 22-00010

Staff Data Request 1-5(a)

State Net Operating Loss Deferred Reconciliation

	Deferred Balance	
State Net Operating Loss Deferred as of 9-30-2020	4,832,811	Note 1
FY20 Return to Provision Adjustment	(7,716)	Note 2
FY20 Return	4,825,095	Note 3
FY21 Activity	57,990	
StateNet Operating Loss Deferred as of 9-30-2021	4,883,085	
Balance as provided in file ADIT to Rates Sep 2021 - REVISED	4,883,084	
Difference	1	

Note 1

FY20 State Net Operating Loss deferred as of 9-30-2020 Provision

Note 2

FY20 Return to provision adjustment reflects the difference between the State Net Operating Loss deferred recorded as of 9-30-2020 provision versus the State Net Operating loss deferred as filed on the FY20 Return.

Note 3

FY20 State Net Operating Loss per state income tax return filed with TN

Atmos Energy Corporation
TN Docket No. 22-00010
Staff Data Request 1-5(c)
State Bonus Depreciation Deferred Reconciliation

	Deferred Balance	
State Bonus Depreciation Deferred as of 9-30-2020	4,906,257	Note 1
FY20 Return to Provision Adjustment	163,216	Note 2
FY20 Return	5,069,473	Note 3
FY21 Activity	(529,304)	
State Bonus Depreciation Deferred as of 9-30-2021	4,540,169	
Balance as provided in file "ADIT to Rates Sep 2020"	4,540,167	
Difference	2	

Note 1

FY20 Bonus Depreciation Deferred as of 9-30-2020 Provision

Note 2

FY20 Return to provision adjustment reflects the difference between the bonus depreciation deferred recorded as of 9-30-2020 versus the bonus depreciation as filed on the TN return

Note 3

FY20 State Bonus Depreciation per state income tax return filed with TN

TN – 22-00010 (2022 TN ARM) – CPAD 1-05 - SUPPLEMENTAL

Refer to the Petition's Relied Upons, File <p. ADIT TN ARM Fiscal 2021.xlsx>, Tab "Div 093" and respond to the following:

- a. Provide all supporting documentation and calculations supporting the \$11,452,512 balance of ADIT associated with the State-Net Operating Loss category for September 2021.
- b. Provide a comprehensive discussion of the nature of the timing difference "State Bonus Depreciation".
- c. Provide the documentation and supporting calculations for the September 2021 balance of "State Bonus Depreciation".

ORIGINAL RESPONSE:

- a. Please see Attachment 1. Please see the updated amount included in the Company's response to CPAD 1-09.
- b. Tennessee has fully decoupled from the federal accelerated depreciation provisions under IRC 168(k) such as bonus depreciation. This results in the federal and state depreciation calculations adjustments to differ in current periods. The deferred tax asset for state bonus depreciation represents state depreciation deductions that were decoupled from federal bonus depreciation but will be able to deduct in future periods throughout the asset life.
- c. Please see Attachment 2.

ATTACHMENTS:

CPAD_1-05_Att1 - State NOL.xlsx

CPAD_1-05_Att2 - State Bonus Depreciation.xlsx

SUPPLEMENTAL RESPONSE:

- a. Please see updated Attachment 1, State NOL. The updated State-Net Operating Loss category, as originally submitted did not the Company did not account for the interplay between the Federal NOL and the State NOL. When this is properly accounted for, the State NOL should have been adjusted up 21% as it was updated to reflect the removal of the impact of Winter Storm Uri, resulting in a \$6.6 million deferred tax asset rather than the originally revised \$4.9 million deferred tax asset. Mr. Matthews has used this updated response to CA 1-05 in his Exhibit WDM-R-1.

ATTACHMENTS:

CPAD_1-05 updated_Att1 - State NOL.xlsx

Winter Storm URI Adjustment for TN ARM

CAPD_1-05 updated_Att1 - State NOL
Attachment 1

Rate Division 093 Tennessee Adjustment Description				Fiscal 2020	Fiscal 2021	Fiscal 2021	Fiscal 2021	Fiscal 2021	Fiscal 2021	Fiscal 2021	Fiscal 2021	Fiscal 2021	Fiscal 2021	Fiscal 2021	Fiscal 2021	Fiscal 2021
				9/30/2020	10/31/2020	11/30/2020	12/31/2020	1/31/2021	2/28/2021	3/31/2021	4/30/2021	5/31/2021	6/30/2021	7/31/2021	8/31/2021	9/30/2021
Per Books Balances																
ST-State Net Operating Loss	TAX	TAX04		4,832,811	4,832,811	4,832,811	4,681,053	4,681,053	4,681,053	10,152,945	10,152,945	10,152,945	10,048,943	10,048,943	10,048,943	11,452,512
FD-Federal Benefit on State NOL	TAX	TAX12		(1,014,890)	(1,014,890)	(1,014,890)	(983,021)	(983,021)	(983,021)	(2,132,118)	(2,132,118)	(2,132,118)	(2,110,278)	(2,110,278)	(2,110,278)	(2,405,028)
Total Per Books Balances				3,817,921	3,817,921	3,817,921	3,698,032	3,698,032	3,698,032	8,020,827	8,020,827	8,020,827	7,938,665	7,938,665	7,938,665	9,047,484
Winter Storm URI Impact																
ST-State Net Operating Loss	1 TAX	TAX04		-	-	-	-	-	-	6,569,428	6,569,428	6,569,428	6,569,428	6,569,428	6,569,428	6,569,428
FD-Federal Benefit on State NOL	2 TAX	TAX12								(1,379,580)	(1,379,580)	(1,379,580)	(1,379,580)	(1,379,580)	(1,379,580)	(1,379,580)
Total Winter Storm URI Impact				-	-	-	-	-	-	5,189,848	5,189,848	5,189,848	5,189,848	5,189,848	5,189,848	5,189,848
Adjusted Balances																
ST-State Net Operating Loss	TAX	TAX04		4,832,811	4,832,811	4,832,811	4,681,053	4,681,053	4,681,053	3,583,517	3,583,517	3,583,517	3,479,515	3,479,515	3,479,515	4,883,084
FD-Federal Benefit on State NOL	TAX	TAX12		(1,014,890)	(1,014,890)	(1,014,890)	(983,021)	(983,021)	(983,021)	(752,538)	(752,538)	(752,538)	(730,698)	(730,698)	(730,698)	(1,025,448)
Total Adjusted Balances				4,832,811	4,832,811	4,832,811	4,681,053	4,681,053	4,681,053	2,830,979	2,830,979	2,830,979	2,748,817	2,748,817	2,748,817	3,857,636

Notes:

1 DR 1-05; WP 7-2, 7-4 Adjust State-Net Operating Loss to remove Uri Impact

2 DR 1-05 Update ; WP 7-2, 7-4 Adjust Federal Benefit of State-Net Operating Loss to remove Uri Impact

Docket No. 22-00010
Atmos Energy Corporation, Tennessee Division
Consumer Advocate DR Set No. 1
Question No. 1-30
Page 1 of 1

REQUEST:

Confirm that the Company's position on the inclusion of non-cash items in the cash working capital calculation continues to be represented by its discovery response and rebuttal testimony in TPUC Docket No. 21-00019.

RESPONSE:

The Company continues to believe that the utilization of the methodology agreed to in Docket Nos. 14-00146 and 18-00112 is appropriate and that there is no reason to change one component of an overall agreement that strikes the right balance between the customer and the Company. With regards to CWC discussed in CAPD testimony in Docket No. 21-00019, the payment of an asset precedes the receipt of services from the asset and the recording of the depreciation expense. The lag between the payment for the asset and the recording of the depreciation expense is recognized by the including of net plant in service in rate base. However, the inclusion of an asset in rate base does not suffice to properly account for the entire lag relating to the depreciation of the asset. The inclusion of the asset in rate base does not include the subsequent lag from the provision of service to the receipt of cash for that service. By including depreciation in the lead-lag study with a zero expense lag, the lead-lag study properly recognizes the subsequent revenue lag on recovering cash related to investment in plant assets. Likewise with return on equity, operating income is earned at the provision of utility service. There is again a revenue lag between the provision of service and the receipt of cash for that service. By including the return on equity in the lead-lag study with a zero expense lag, the lead-lag study properly recognizes the subsequent revenue lag on recovering cash related return.

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. 2-09
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).

Schedule 9

**Tennessee Distribution System
Overall Cost of Capital
Twelve Months Ended May 31, 2020**

Docket No. 19-00018

Line No.	Description	Percent	Cost Rate	Overall Cost of Capital
	(a)	(b)	(c)	(d)
1	Long Term Debt Capital	37.56%	5.22%	1.96%
2	Short Term Debt	4.07%	2.61%	0.11%
3	Equity Capital	<u>58.38%</u>	9.80%	<u>5.72%</u>
4				
5	Total Capital	<u><u>100.0%</u></u>		<u><u>7.79%</u></u>

Schedule 9

**Tennessee Distribution System
Overall Cost of Capital
Twelve Months Ended September 30, 2020**

Docket No. 21-00019

Line No.	Description	Percent	Cost Rate	Overall Cost of Capital
	(a)	(b)	(c)	(d)
1	Long Term Debt Capital	39.96%	4.29%	1.72%
2	Short Term Debt	0.17%	17.10%	0.03%
3	Equity Capital	<u>59.88%</u>	9.80%	<u>5.87%</u>
4				
5	Total Capital	<u><u>100.0%</u></u>		<u><u>7.62%</u></u>

Schedule 9

**Tennessee Distribution System
Overall Cost of Capital
Twelve Months Ended September 30, 2021**

Docket No. 22-00010

Line No.	Description	Percent	Cost Rate	Overall Cost of Capital
	(a)	(b)	(c)	(d)
1	Long Term Debt Capital	39.36%	3.94%	1.55%
2	Short Term Debt	0.05%	69.89%	0.04%
3	Equity Capital	<u>60.59%</u>	9.80%	<u>5.94%</u>
4				
5	Total Capital	<u><u>100.0%</u></u>		<u><u>7.53%</u></u>

1-01. Referring to your statement that “A Cash Working Capital calculation aims to determine the cash on hand needed to finance daily operations.” Please provide citations to all support relied upon for that definition of Cash Working Capital. (Reference Page 9, A17, Lines 1-2)

RESPONSE:

Leonard Saul Goodman addressed this issue in *The Process of Ratemaking*, which states:

The working capital allowance in rate base covers only those cash funds and temporary securities that must be held by the company for operating expenses, rents and taxes (other than income taxes) prior to the collection of revenues from ratepayers. Cash funds held by the company for capital purposes, such as to pay interest or dividends or to support construction, may or may not be covered. Some jurisdictions authorize a separate AFUDC, or for materials and supplies.

Studies that measure the funds needed to pay operating expenses and taxes (other than income taxes) prior to the collection of the revenue in the same accounting period are typically “lead-lag” studies. In a lead-lag study, the witness measures the number of days before expenses must be paid (“expense lead” or “lead days”) against the days before revenues are received (“revenue lag” or “lag days”). If there is a net lag, then investors are supplying working capital, which should be included as an additional element of rate base. If there is no difference between the two, then no working capital allowance is required.¹

Depreciation is not an expense that needs to be paid and thus does not meet the definition of lead-lag study components mentioned above. Also, the Consumer Advocate addressed this issue through Mr. Dittmore’s Direct Testimony² and in its Post Hearing Brief³ in TPUC Docket No. 18-00017.

¹ LEONARD SAUL GOODMAN, *THE PROCESS OF RATEMAKING* VOL. II, p. 832 (Public Utility Reports, Inc. 1998). A copy of two pages that address “Lead-Lag” studies are attached as ***Exhibit CA Response DR 1-01***.

² *Direct Testimony of David Dittmore* at 17:5- 20:2, TPUC Docket No. 18-00017 (July 3, 2018).

³ *Consumer Advocate’s Post Hearing Brief*, p.p. 32-34, TPUC Docket No. 18-00017 (September 10, 2018).

1-03. Is it Mr. Dittimore's belief that short-term debt should be permanently excluded from the capital structure or only when the cost of short-term debt exceeds the imbedded cost of long-term debt? (Reference Page 11, Q24 & A24)

RESPONSE:

Mr. Dittimore is not suggesting in his testimony that Short-Term debt should be permanently excluded from the capital structure, nor is his testimony that Short-Term debt should be automatically excluded when the cost of Short-Term debt exceeds the cost of Long-Term debt. The issue is whether a 69% cost rate for Short-Term debt is a reasonable cost to be incurred by customers.