

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

August 9, 2022

IN RE:

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJ. (WNA) AUDIT)

)

)

) **Docket No. 22-00052**

**NOTICE OF FILING BY UTILITIES DIVISION OF THE
TENNESSEE PUBLIC UTILITY COMMISSION**

Pursuant to Tenn. Code Ann. §§ 65-4-104, 65-4-111 and 65-3-108, the Utilities Division of the Tennessee Public Utility Commission (“TPUC” or the “Commission”) hereby gives notice of its filing of the Atmos Energy Corporation WNA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Commission to hear matters arising out of the audit of Atmos Energy Corporation (the “Company”).
2. The Company’s WNA filings were received on October 1, 2021, through April 30, 2022, and the Staff completed its audit of same on July 22, 2022.
3. On July 25, 2022, the Utilities Division submitted its preliminary WNA audit findings to the Company via e-mail. The Company responded on July 25, 2022 via e-mail and this response has been incorporated into the final report. The Report is attached hereto as Exhibit A and is fully incorporated herein by this reference.

4. The Utilities Division hereby files its Report with the Tennessee Public Utility Commission for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

A handwritten signature in black ink that reads "Pat Murphy". The signature is written in a cursive, flowing style.

Pat Murphy
Utilities Division
Tennessee Public Utility Commission

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of August 2022, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

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A handwritten signature in black ink that reads "Pat Murphy". The signature is written in a cursive, flowing style.

Pat Murphy

EXHIBIT A

COMPLIANCE AUDIT REPORT

OF

ATMOS ENERGY CORPORATION

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

Docket No. 22-00052

TENNESSEE PUBLIC UTILITY COMISSION

UTILITIES DIVISION

August 2022

COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 22-00052

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COMPLIANCE AUDIT
ATMOS ENERGY CORPORATION
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 22-00052

I. INTRODUCTION AND AUDIT OPINION

The subject of this compliance audit is the Weather Normalization Adjustment (“WNA”) Rider of Atmos Energy Corporation (“Atmos” or the “Company”). The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers’ bills appropriately between October 2021 and April 2022. As a result of the WNA Rider, the Company **surcharged a net \$2,123,074 to residential and commercial customers** during the period. The impact of WNA revenues on the Company’s total revenues is detailed in Section V.

The Audit Staff’s (“Staff”) audit resulted in one (1) finding regarding the WNA calculations, showing that the Company **over-collected a net \$22,899.44** from customers. See Section VI for a discussion of Staff’s finding and the Company’s response. Except for the finding noted in this report, Staff concludes that Atmos is correctly implementing the mechanics of the WNA Rider as specified by the Tennessee Public Utility Commission (“TPUC” or the “Commission”) and included in the Company’s tariff (See Attachment 1).

II. SCOPE OF AUDIT

In meeting the objective of the audit, Staff compared the following on a daily basis:

- (1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration (“NOAA”) actual heating degree days;
- (2) the Company's normal heating degree days to the normal heating degree days calculated in the last Annual Review Mechanism (ARM) filing; and
- (3) the Company's calculation of the WNA factors to Staff's calculations.¹

Staff selected a sample of customer bills to verify that the WNA factor had been correctly applied to the bills. Staff also examined each sample bill to determine whether the Base Rates and Purchased Gas Adjustments were billed correctly. Staff found no discrepancies.

The Utilities Division of the TPUC is responsible for compliance audits of the regulated gas companies. Pat Murphy of the Utilities Division conducted this audit.

¹ Weather Normalization Adjustment (WNA) Rider, 9th Revised Sheet No. 51, effective October 1, 2021 (See Attachment 1).

III. BACKGROUND INFORMATION ON THE COMPANY

Atmos, with its principal office at 810 Crescent Centre Drive, Franklin, Tennessee, is a wholly owned subsidiary of its parent company Atmos Energy Corporation, located in Dallas, Texas. Atmos Energy Corporation is a multi-state gas distributor, providing service to multiple communities in Tennessee. The gas to serve these areas is obtained from the Asset Manager and other suppliers, and delivered by four natural gas pipelines in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission (“FERC”). The four interstate pipelines are East Tennessee Natural Gas (“ETNG”), Texas Eastern Transmission Corporation (“TETCO”), Columbia Gulf Transmission Corporation (“CGT”) and Texas Gas Transmission Corporation (“TGT”).

ETNG provides service to Atmos in Tennessee for the Columbia, Shelbyville, Lynchburg, Maryville-Alcoa, Morristown, Bristol, Elizabethton, Gray, Greeneville, Johnson City and Kingsport areas.

TETCO and CGT provide service to Atmos in Tennessee for Murfreesboro, Nolensville, Franklin and adjacent areas in Rutherford and Williamson Counties.

TGT provides service to Atmos in Union City, Tennessee, and adjacent areas in Obion County.

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT RIDER

In setting rates, the Tennessee Public Utility Commission² uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years' weather data.³

Normal weather rarely occurs. This has two impacts:

- (1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and
- (2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and over-earnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills amounts will be lower and the company will under-earn.

² Effective April 5, 2017, the name of Tennessee Regulatory Authority changed to the Tennessee Public Utility Commission and board members of the agency are now known as Commissioners rather than Directors.

³ Weather data is published monthly by NOAA.

In recognition of this fact, on September 26, 1991, the Tennessee Public Service Commission⁴ (“TPSC”) approved a three-year experimental Weather Normalization Adjustment Rider (“WNA Rider”) to the tariffs of Chattanooga Gas Company, Nashville Gas Company, a division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company.⁵ In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' bills should not fluctuate as dramatically from month to month and the gas company should have a more stable rate of return. The WNA Rider was to be applied to residential and commercial customers' bills during the months of October through May of each year. On June 21, 1994, the TPSC issued an Order authorizing the above-mentioned gas companies to permanently implement an amended version of the WNA Rider.⁶

As a result of the Company's prior rate case in Docket No. 12-00064 before this Commission, Atmos' WNA Rider tariff was amended effective December 1, 2012. Atmos calculates and bills the WNA to customers during the months of October through April of each year. The Commission Staff audits these WNA calculations annually. Atmos' WNA Rider tariff that governs this audit period accompanies this Report as Attachment 1.

⁴ By legislative action, the Public Service Commission was replaced on July 1, 1996 by the Tennessee Regulatory Authority. See Act of May 24, 1995, Ch. 305, 1995 Tenn. Pub. Acts 450. The TRA retains jurisdiction over the above named gas companies. See Tenn. Code Ann. § 65-4-104; see also Tenn. Code Ann. § 65-4-101 (a) (defining public utility).

⁵ See petition of Chattanooga Gas Company, Nashville Gas Company, a Division of Piedmont Natural Gas Company, Inc. and United Cities Gas Company for a Rulemaking Hearing to Adopt a Weather Normalization Adjustment (WNA) Rider, Docket No. 91-01712, *Order* (September 26, 1991).

⁶ The amendment directed Chattanooga Gas Company and United Cities Gas Company to eliminate from their WNA Rider the shoulder months of October and May, and Nashville Gas Company to eliminate the shoulder months of October, April and May.

V. IMPACT OF WEATHER NORMALIZATION ADJUSTMENT RIDER

The following tables summarize a comparison of actual heating degree days (“ADD”) to normal heating degree days (“NDD”) by month for Atmos Energy Corporation during the 2020– 2021 heating season, in each of its four service areas.⁷ During the past winter, overall, weather was 5.5% warmer in the Bristol area, 4.1% warmer in the Knoxville area, 6.9% warmer in the Nashville area, and 3.2% warmer in the Paducah area compared to normal weather.

Bristol:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
September 2021	27	36	Warmer
October 2021	157	254	Warmer
November 2021	643	551	Colder
December 2021	541	781	Warmer
January 2022	936	868	Colder
February 2022	606	672	Warmer
March 2022	433	537	Warmer
April 2022	287	264	Colder
Total	<u>3630</u>	<u>3963</u>	8.4% Warmer

Knoxville:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
September 2021	15	17	Warmer
October 2021	133	182	Warmer
November 2021	560	465	Colder
December 2021	432	697	Warmer
January 2022	878	798	Colder
February 2022	554	605	Warmer
March 2022	350	437	Warmer
April 2022	<u>222</u>	<u>189</u>	Colder
Total	<u>3144</u>	<u>3390</u>	7.3% Warmer

⁷ Atmos’ service territory is divided into four (4) service areas for WNA calculation purposes. Each area’s WNA factors are calculated separately based on the actual degree days calculated from daily weather observations as reported by Tri-Cities Regional TN/VA Airport (KTRI) for the Bristol area, McGhee Tyson Airport (KTYN) for Knoxville area, Nashville International Airport (KBNA) for Nashville area and Barkley Regional Airport (KPAH) for the Paducah area. The weather observations from these locations are reported to NOAA and the daily actual degree days are published by NOAA monthly in its *Local Climatological Data* report.

Nashville:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
September 2021	8	16	Warmer
October 2021	91	169	Warmer
November 2021	504	459	Colder
December 2021	354	701	Warmer
January 2022	867	786	Colder
February 2022	591	597	Warmer
March 2022	341	442	Warmer
April 2022	<u>203</u>	<u>182</u>	Colder
Total	<u>2959</u>	<u>3352</u>	11.7% Warmer

Paducah:

Month	Actual Heating Degree Days	Normal Heating Degree Days	Warmer/Colder than Normal
September 2021	8	27	Warmer
October 2021	118	225	Warmer
November 2021	583	510	Colder
December 2021	451	792	Warmer
January 2022	988	911	Colder
February 2022	737	695	Colder
March 2022	429	519	Warmer
April 2022	<u>257</u>	<u>221</u>	Colder
Total	<u>3571</u>	<u>3900</u>	8.4% Warmer

Note: Graphs showing a visual comparison of actual degree days compared to normal degree days can be found at the end of this Section (pages 7-10).

Since weather overall was warmer than normal, the net impact of the WNA Rider on the Company's revenues was that residential customers were **surcharged \$1,020,078** and commercial customers were **surcharged \$1,102,997**. This equates to an increase in residential sales revenues of 1.31% and an increase in commercial sales revenues of 2.28% (See Table 1). This surcharge is an increase from the amount surcharged during the previous year, when residential and commercial customers were surcharged \$587,163 and \$613,430 respectively. (See Table 2 for a comparison of the last three heating seasons.)

Table 1

**Impact of WNA Rider on Residential & Commercial Revenues
October 2021- April 2022**

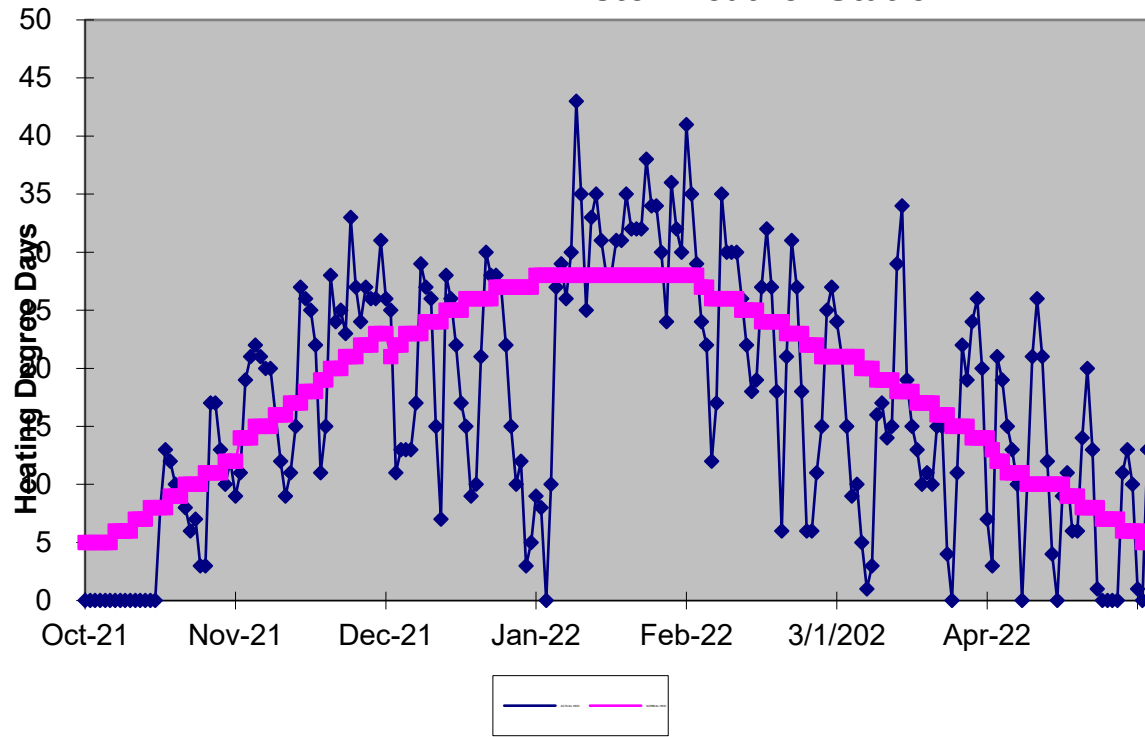
	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider on Revenues</u>
Residential Sales	\$1,020,078	\$78,089,187	1.31%
Commercial Sales	<u>1,102,997</u>	<u>48,463,376</u>	<u>2.28%</u>
Total	<u>\$2,123,074</u>	<u>\$126,552,563</u>	<u>1.68%</u>

Table 2

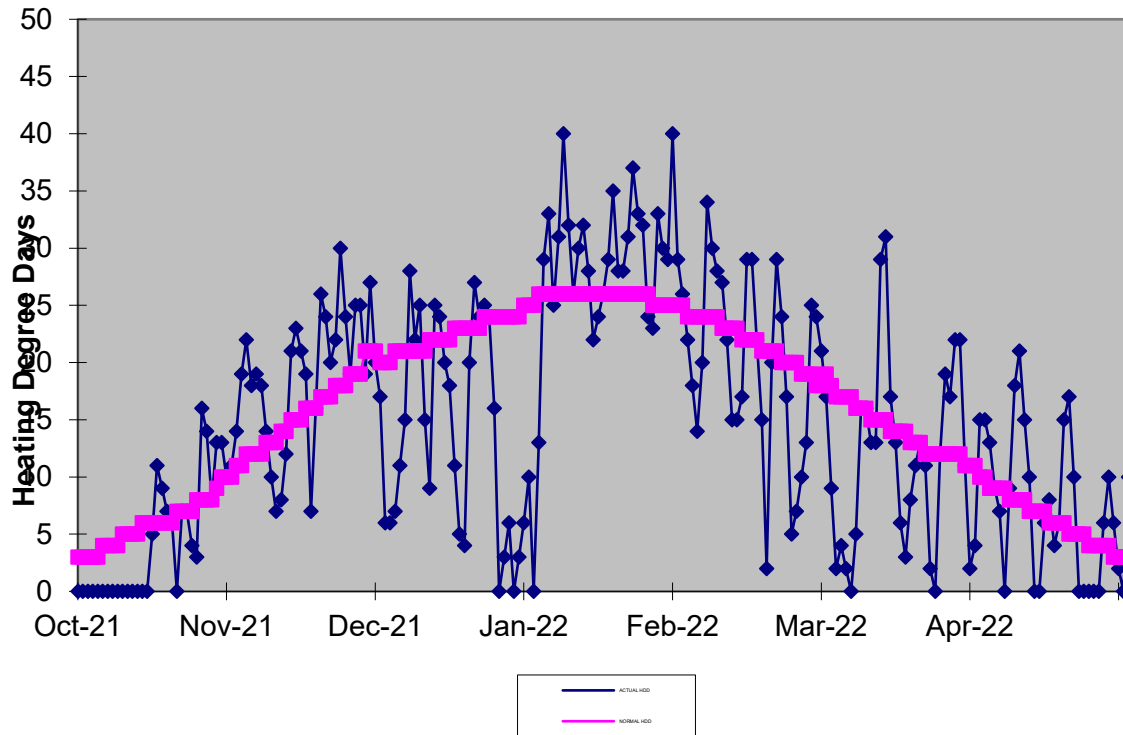
**Amount Surcharged (Refunded)
2019 - 2022**

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/(Refund)</u>
10/19-4/20	1,386,061	1,566,913	2,952,974
10/20-4/21	587,163	613,430	1,200,593
10/21-4/22	<u>1,020,078</u>	<u>1,102,997</u>	<u>2,123,074</u>
Total	<u>\$ 2,993,302</u>	<u>\$ 3,283,340</u>	<u>\$ 6,276,641</u>

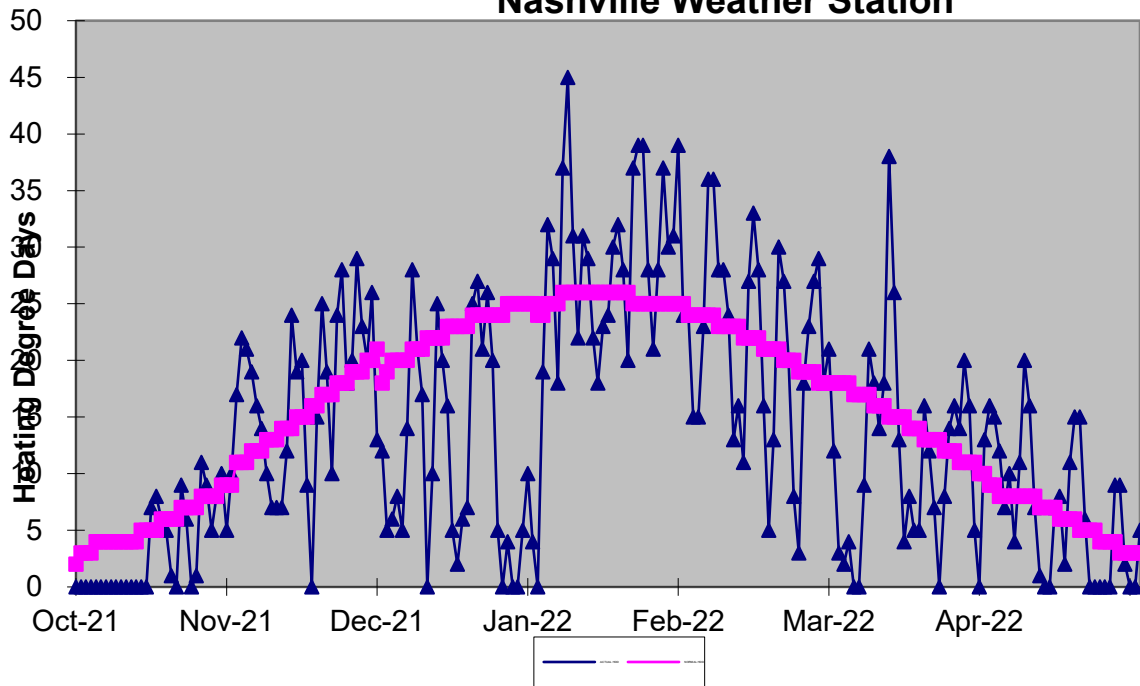
**Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Bristol Weather Station**



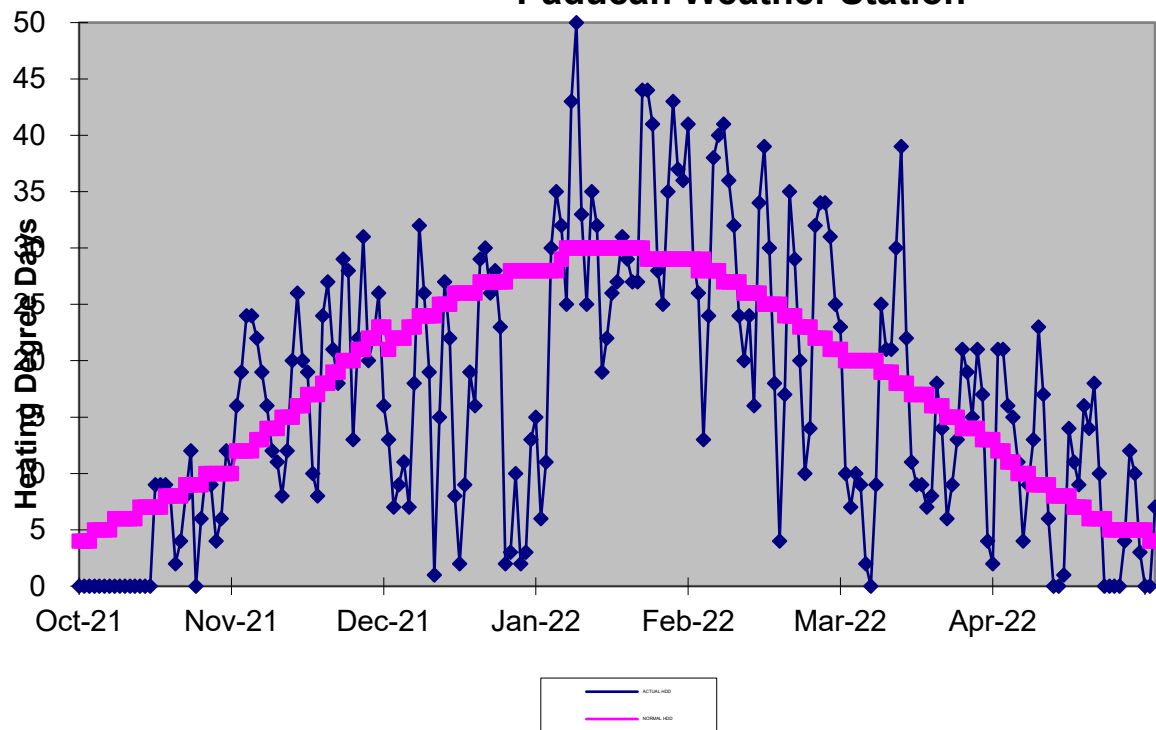
**Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Knoxville Weather Station**



**Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station**



**Atmos Energy Corporation
Comparison of Actual to Normal Heating Degree Days
Paducah Weather Station**



FINDING #1:

Exception

The Company used inaccurate actual daily heating degree days (ADD) in the calculation of the WNA factor.

Discussion

The audit period consisted of 968 weather observations (242 days in the period times four weather stations). Audit results indicate that the Company used inaccurate actual daily heating degree days in the calculation of the WNA factor on five (5) days for the Bristol weather station, three (3) days for the Knoxville weather station, four (4) days for the Nashville weather station, and seven (7) days for the Paducah weather station for a total of nineteen (19) weather observations. These inaccuracies are due to differences in daily heating degree days published in NOAA's Local Climatological Data report⁸ and the daily heating degree days that the Company used in calculating its WNA factors.⁹ In order to timely bill its customers, the Company must obtain actual degree day information from its weather information source(s) on a real time basis. The WNA Rider and the Staff's audit of this Rider are based on the official NOAA publication, which typically has a two-month lag between the date weather data is collected and the official NOAA reports are published. Therefore, Staff recognizes that discrepancies can be caused by the Company's weather information source through no fault of the Company.

Weather Station/ Date	NOAA Actual Degree Days	Company Actual Degree Days	Difference
<u>Bristol:</u>			
11/15/2021	25	24	1
11/16/2021	22	18	4
11/26/2021	27	26	1
1/18/2022	32	31	1
4/9/2022	26	27	-1
		Total	6

⁸ This published report is the official data supplied by NOAA and is the standard that the Staff uses to audit the Weather Normalization Adjustment Rider.

⁹ See Tables below for detail of the differences.

Weather Station/ Date	NOAA Actual Degree Days	Company Actual Degree Days	Difference
<u>Knoxville:</u>			
10/26/2021	16	15	1
1/2/2022	13	12	1
3/31/2022	4	3	1
		Total	3

Weather Station/ Date	NOAA Actual Degree Days	Company Actual Degree Days	Difference
<u>Nashville:</u>			
3/11/2022	18	17	1
3/23/2022	8	7	1
4/17/2022	11	9	2
4/26/2022	9	8	1
		Total	5

Weather Station/ Date	NOAA Actual Degree Days	Company Actual Degree Days	Difference
<u>Paducah:</u>			
9/24/2021	2	0	2
10/25/2021	6	4	2
11/2/2021	19	18	1
12/11/2021	15	14	1
12/19/2021	29	24	5
12/20/2021	30	28	2
4/17/2022	16	15	1
		Total	14

These actual heating degree day differences resulted in a **net over-recovery of \$22,899.44** in WNA revenues.¹⁰

¹⁰ The net over-recovery is comprised of \$8,426.90 over-recovery for Bristol, \$2,855.84 over-recovery for Knoxville, \$9,264.55 over-recovery for Nashville, and \$2,352.15 over-recovery for Paducah.

Recommendation

Since the dollar amount of this finding is immaterial on a per customer basis,¹¹ Staff recommends that the over-recovery be added to the Company's Actual Cost Adjustment (ACA) Account Balance in the next available ACA audit filed with the Commission, as has been this Commission's custom.

Company Response

Atmos Energy acknowledges use of preliminary data for its monthly billing of WNA when actual NOAA data was not yet available. The Company agrees that \$22,899.44 net over-recovery is a reasonable assessment of the impact of these billing inaccuracies for the 2021-2022 heating season. We agree to include this correction in the next ACA filing as recommended.

¹¹ Approximately \$0.012 per customer per month, based on the number of customers reported in the Company's May 2022 3.03 monthly report.

VII. CONCLUSIONS AND RECOMMENDATIONS

The Company has satisfactorily responded to Staff's Finding. As stated in Section I, except for the findings noted, Staff concludes that it appears that Atmos is correctly implementing the mechanics of its WNA Rider in all material respects. **Staff recommends that the Company include the net over-recovery of \$22,899.44 in its next available Actual Cost Adjustment filing with the Commission. Atmos has agreed to do so.**

WNA audit filings in general historically have been immaterial when spread over the customer base that are subject to the weather adjustments. There is no mechanism within the Weather Normalization Adjustment Rider to true up any over- or under-recoveries. Since identifying and rebilling individual customers would be cost prohibitive, Staff recommends in those cases that the finding amounts be charged or credited to the Company's Actual Cost Adjustment (ACA) Account, which covers essentially the same customer base. Staff then reviews subsequent ACA filings to verify that this has been done.

In the last WNA report in Docket No. 21-00082, Staff identified two prior WNA over-collections that had not yet been refunded to customers via credits to the ACA Account.¹² Staff, therefore, reviewed Atmos' next ACA filing in Docket No. 21-00100, filed on August 31, 2021, covering the period July 2020 through June 2021. Staff confirmed that the two outstanding over-collections were credited to the ACA Account in that filing.

Since the report in the current WNA audit docket is being published in August 2022, Staff understands that Atmos does not have enough time to include the over-collection of \$22,899.44 in the ACA filing covering the period July 2021 – June 2022, which will be filed the end of this month. Audit Staff, therefore, expects that the over-collection will be credited in the next ACA filing, covering the period July 2022 – June 2023.

The Normal Daily Degree Days (NDD) used in the formula to calculate the WNA factors for customer billing during the heating season are determined in the Company's Annual Rate Review Filing. The NDD used in this review period were established in Commission Docket No. 21-00019, effective October 1, 2021. The NDD are expressed to six decimal places. Historically, Staff and the Company have used these NDD rounded to the nearest whole number. During this heating season, however, Atmos was not consistent, using a combination of NDD rounded to the nearest whole number and others using the full decimal values. Atmos acknowledged that there were formatting errors this review period but agrees with Staff that NDD rounded to the nearest whole number is the methodology they have used in the past and will continue to use going forward. They have now corrected this formatting error. Staff compared the Company's results with Staff's results and the differences were minimal and not material to the calculation of the cycle WNA factors.

Staff appreciates and thanks the Company staff for their cooperation during this audit process.

¹² \$37,284.64 finding in Docket No. 19-00065 and \$15,304.05 finding in Docket No. 20-00092.

ATTACHMENT 1

WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER (Continued)

HSF _i	=	heat sensitive factor for the i th schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
NDD	=	normal billing cycle heating degree days utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues
ADD	=	actual billing cycle heating degree days
Bl _i	=	base load sales for the i th schedule or classification utilized by the Regulatory Authority in the Relevant Rate Order for the purpose of determining normalized test year revenues

Filing with Regulatory Authority

The Company will file as directed by the Regulatory Authority (a) a copy of each computation of the Weather Normalization Adjustment, (b) a schedule showing the effective date of each such Weather Normalization Adjustment, and (c) a schedule showing the factors or values derived from the Relevant Rate Order used in calculating such Weather Normalization Adjustment.

Heat Use/Base Use Factors

<u>Town</u>	<u>Residential/PA</u>		<u>Commercial / Small Industrial</u>	
	<u>Base use</u> <u>Ccf</u>	<u>Heat use</u> <u>Ccf/HDD</u>	<u>Base use</u> <u>Ccf</u>	<u>Heat use</u> <u>Ccf/HDD</u>
Union City	7.25	.142520	171.97	.427972
Columbia Shelbyville Franklin Murfreesboro	12.66	.150133	117.58	.571229
Maryville Morristown	9.15	.120166	99.04	.663848
Johnson City Elizabethton Kingsport Greeneville Bristol	10.32	.115855	104.21	.620497

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