BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE

IN RE:

ATMOS ENERGY CORPORATION	)	
TENNESSEE DIRECT,	)	
KENTUCKY/MID-STATES DIVISION,	)	**Docket No. 23-00050**
AND SHARED SERVICES UNIT	)	
DEPRECIATION STUDY	)	

ATMOS ENERGY CORPORATION'S POST-HEARING BRIEF

Pursuant to § I.G. of the Pre-Hearing Order, Atmos Energy Corporation ("Atmos Energy" or the "Company") respectfully submits its Post-Hearing Brief in lieu of closing arguments.

Atmos Energy requests that the Commission approve the new depreciation rates as set forth in the depreciation studies submitted in this docket. Only one portion of those studies has been challenged by the Consumer Advocate—the inclusion of cost of removal associated with replacement projects. As explained more fully below, the Consumer Advocate's objection is without merit and should be rejected.

I. It is appropriate to include cost of removal for replacement projects as part of depreciation expense under generally accepted accounting principles, the Uniform System of Accounts, and Commission precedent.

The Commission heard ample testimony concerning the basic nature of depreciation expenses in utility accounting. In short, however, depreciation seeks to spread the costs associated with an asset across the life of that asset.[1] In many cases, an asset can simply be put into the trash, so nearly all costs are incurred when the asset is purchased. Certain natural gas assets, however, are different. Unlike (for example) a printer or an office chair, a natural gas pipeline cannot simply

[1] 11/6/2023 Hearing Transcript at 22:22-23:5.

be thrown in the trash when it reaches the end of its useful life. Instead, the Company is required to take certain steps to safely remove that asset from service. With respect to (for example) a pipeline, those steps include excavating the pipeline, cutting it off of the main line, purging it of all remaining gas, capping both ends of the retired pipe, and refilling the trench that was excavated.[2] There are costs associated with each of these steps.[3] Because these steps are a necessary part of owning this type of asset, the associated costs constitute a portion of the total cost of the asset and, therefore, are generally included as part of depreciation expense under the title "cost of removal."[4]

The Consumer Advocate did not object to including cost of removal in depreciation expense as a general matter. To the contrary, its own proposal expressly includes cost of removal as part of depreciation expense in certain circumstances.[5] Rather, the Consumer Advocate's objection was much more limited: it objected to including cost of removal as part of depreciation expense *only* when those costs are incurred as part of retiring an asset that is being replaced by a new asset.[6] But, as explained below, the Consumer Advocate's attempt to limit cost of removal to "retirement-only" projects is contrary to (i) basic accounting principles, (ii) the requirements of the Uniform System of Accounts, which Atmos Energy is required to follow under TPUC 1220-04-01-.11(1)(c), (iii) the practices of other utilities as approved by this Commission, and (iv) the

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2 11/6/2023 Hearing Transcript at 23:17-22.

3 *Id.*

4 *Id.*

5 *See, e.g.,* Pre-Filed Direct Testimony of Michael Majoros at 25:12-15 (stating that he is including cost of removal expenses for all "cost of removal eligible" projects, which he incorrectly defines as exclusively consisting of "retirement-only" projects); 11/6/2023 Hearing Transcript at 54:14-16.

6 Pre-Filed Direct Testimony of Michael Majoros at 19:3-22.

practices of other utilities as approved by other regulatory agencies throughout the country. As a result, it should be rejected.

A. Replacing an existing asset involves additional costs that can only properly be accounted to "cost of removal" under basic accounting principles.

As a threshold matter, including cost of removal for replacement projects is clearly proper as a matter of accounting principles.

As discussed above, the conceptual underpinning for cost of removal is the fact that there are additional costs associated with taking certain assets out of service. When those assets are being replaced, some of those costs are shared with the replacement project; for example, even if no pipeline was being replaced, the Company would still need to get permits, dig a trench, re-fill that trench, and so on.[7] These are the so-called "common costs," which can be addressed in two ways.[8] Even when replacing the asset, however, there are still certain steps (and certain costs) that are *only* required to remove the existing asset from service, such as cutting, purging, and capping the pipe.[9] The Consumer Advocate did not dispute—indeed, cannot reasonably dispute—that these so-called "incremental costs" are only incurred in connection with removing the old asset from service and would need to be incurred whether it is a retirement-only or a replacement project. Because those incremental costs are only incurred in connection with the removal of the old pipeline from service, they are a part of the overall cost of that asset and should be included as part of depreciation expense. While there is room for disagreement regarding the proper treatment of

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[7] 11/6/2023 Hearing Transcript at 24:10-25:3.

[8] Specifically, these costs can be either split between the cost of the new asset and depreciation expense (the so-called "Common Cost Approach") or put entirely towards the cost of the new asset (the so-called "Incremental Approach" adopted here). 11/6/2023 Hearing Transcript at 25:4-21.

[9] Pre-Filed Rebuttal Testimony of Ned W. Allis at 3:13-15.

"common costs," that issue is not before the Commission; Atmos Energy has elected to include *none* of those common costs as part of cost of removal, opting instead for the more conservative "incremental approach" that only includes costs related solely to retiring the old asset.[10] As a result, the only issue in this docket relates to incremental costs, which are by definition related solely and exclusively to removing an existing asset from service. There is no conceptual justification for treating those costs differently than the same costs incurred in connection with a "retirement-only" project, as the Consumer Advocate proposes.

B. The Uniform System of Accounts, which Atmos Energy is required to follow, includes cost of removal for replacement projects in depreciation expense.

The conceptual appropriateness of Atmos Energy's approach is supported by relevant authority and precedent. Arguably the most important of those authorities is the Uniform System of Accounts ("USOA"). Under TPUC Rule 1220-04-01-.11, Atmos Energy is required to follow the USOA. In relevant part, and consistent with the conceptual analysis above, the USOA affirmatively *requires* utilities to include cost of removal in depreciation expense for all retirement projects, "with or without replacement."

The USOA contains eight sections,[11] but the most relevant here is the third, called "Gas Plant Instructions." This Section provides instructions on how to make accounting entries for various activities related to the gas plant accounts (301 to 399), a category which includes the asset categories at issue in this docket.[12] Most important here is Gas Plant Instruction 10.B.2, which

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10 11/6/2023 Hearing Transcript at 26:3-23; Pre-Filed Rebuttal Testimony of Ned W. Allis at 11:1-12:7.

11 (1) Definitions, (2) General Instructions, (3) Gas Plant Instructions, (4) Operating Expense Instructions, (5) Gas Plant Accounts, (6) Income Chart of Accounts, (7) Special Instructions, and (8) Operation and Maintenance Expense Chart of Accounts

12 For example, "the cost installed of meters, gauges, and other equipment used in measuring or regulating gas in connection with transmission system operations" is Account 369. Similarly,

provides the following instructions for how to make accounting entries when a gas plant asset is retired or removed from service:

> When a retirement unit is retired from gas plant, with or without replacement, the book cost thereof shall be credited to the gas plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to gas plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

(emphasis added). This instruction is clear—when an asset is retired, the cost of removal should be included in depreciation. There is no indication that this instruction does not apply to replacement projects; to the contrary, it expressly states that this step is appropriate when a retirement occurs "with or without replacement." As a result, the Consumer Advocate's proposal is directly contrary to the express terms of the USOA, which Atmos Energy is required to follow.[13]

C. *The Commission has previously approved studies that included cost of removal for replacement projects as part of depreciation expense.*

Given both (i) the clear conceptual support for this approach and (ii) the fact that it is required by the USOA, it should come as no surprise that the Commission has consistently

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distribution system mains, compressor station equipment, regulator stations, meters and other items related to Atmos Energy's pipelines are in Accounts 376-383. *Cf.* 11/6/2023 Hearing Exhibit 1 (which shows the USOA account numbers for the accounts at issue).

[13] On cross-examination of the Company's witness, the Consumer Advocate appeared to suggest that the Commission has previously departed from the USOA in appropriate cases, pointing to the treatment of depreciation expense as a regulatory asset in Docket No. 21-000135. 11/6/2023 Hearing Transcript at 43:14-44:3. As a threshold matter, having reviewed that docket, the Company does not believe the treatment of depreciation expense in that docket violates the USOA. To the contrary, the regulatory asset associated with depreciation in that docket is merely intended to recognize and true-up timing differences for ratemaking. In any event, even if the Consumer Advocate were correct that the Commission has allowed deviations from the USOA for compelling reasons in other dockets, that would not change the analysis here. Unlike those other hypothetical cases, and as discussed more fully below, the Consumer Advocate has not presented any compelling reason for departing from the USOA on this issue. *Cf.* Section II below (criticizing the Consumer Advocate's arguments).

approved depreciation studies that included cost of removal for replacement projects. For example, prior depreciation studies submitted by the Company have not only included cost of removal for replacement projects, but have actually accounted for them using the "common costs" method, which results in a higher depreciation expense.[14] Nevertheless, these studies were approved by the Commission.[15] Similarly, the most recent depreciation studies for both Chattanooga Gas and Piedmont Natural Gas included cost of removal for replacement projects in depreciation expense.[16] Once again, however, the Commission approved those studies.[17] As a result, under all applicable Commission precedent, including cost of removal for replacement projects as part of depreciation is appropriate and should be approved.

D. There is no precedent for the Consumer Advocate's proposal.

By contrast, there is literally **no** precedent for the Consumer Advocate's proposal. The Consumer Advocate did not cite a single (i) prior Order from this Commission, (ii) prior Order

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14 *See* Pre-Filed Rebuttal Testimony of Ned W. Allis at 11:1-12:7; *see also* Atmos Energy's Responses to Consumer Advocate Data Request No. 1-34, Attachment 1 at pp. 4-5 (explaining the rationale for the Company's switch to the incremental approach in these studies).

15 *Compare, e.g.,* Pre-Filed Direct Testimony of Dane Watson in Docket 15-00089 at Exhibit DAW-2, pp. 49-50 (calculating cost of removal for Account 376.01 based upon 10 year replacement program, establishing that cost of removal for replacement projects was included) *with* Commission's February 23, 2016 Order in Docket No. 15-00089 at 4 (finding "that the proposed depreciation rates are just and reasonable for inclusion in Atmos' ARM going forward").

16 *See* Pre-Filed Rebuttal Testimony of Ned W. Allis at 7:2-13.

17 *Id.; see also* Docket 20-00086, specifically Direct Testimony of Dane A. Watson, Exhibit DAW 2, e.g., at pages 64-65 of 102 (discussing cost of removal allocations in replacement and retirement only projects, both of which are included in study) & Commission's May 6, 2021 Order at 7 ("The Hearing Panel further found the depreciation rates for Tennessee direct assets, set forth in the depreciation study filed by Piedmont witness Dane A. Watson, are reasonable and voted unanimously that they be approved."); *see also* Docket 18-0017, specifically Direct Testimony of Dane A. Watson, Exhibit DAW-2, e.g., at pages 63-64 of 102 (discussing differences between cost of removal for replacement and retirement only projects in determining net salvage) & Commission's January 11, 2019 Order 44 (applying the company's proposed depreciation rates).

from any other regulatory agency, (iii) prior practice from any other utility, or (iv) excerpt from any accounting system or textbook which adopted its novel "cost of removal, but only on retirement-only projects" approach. To the contrary, when asked to identify what he was relying on, the Consumer Advocate's witness could only point to (a) USOA Definition 32 (which is addressed below) and (b) "common sense."[18] On the other hand, the Company's witness, Ned Allis, testified that he had *never* seen any utility using this approach in any of the hundreds of studies and projects he has worked on over his long career.[19] This testimony was unrebutted.

In other words, in contrast to the well-established approach used by the Company (which is required by the USOA), the Consumer Advocate is proposing a completely novel theory that has never been previously adopted by any regulatory agency, utility, or scholarly treatise. For the reasons discussed below, the grounds relied upon by the Consumer Advocate for this request fail to withstand scrutiny.

II. There is no compelling reason to disallow the inclusion of the cost of removal for replacement projects as part of depreciation expense.

The Consumer Advocate did not rebut *any* of the points set forth above. Instead, it based its request for a completely novel accounting approach on a series of disconnected arguments, most of which are little more than unfounded criticisms of Atmos Energy's approach. None of the Consumer Advocate's arguments has merit.

As stated above, excepting Mr. Majoros's unspecified (and unexplained) "common sense," the Consumer Advocate's position is based on only one source—Defintion 32.A. of the USOA. In full, this provision defines the terms "replacing" or "replacement" as follows:

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18 11/6/2023 Hearing Transcript at 56:2-4.

19 *See* Pre-filed Rebuttal Testimony of Ned W. Allis at 6:20-7:1.

> *Replacing* or *replacement,* when not otherwise indicated in the context, means the construction or installation of gas plant in place of property retired, together with the removal of the property retired.

(emphasis in original). Relying upon the fact that this definition includes both (i) construction of a new asset and (ii) removal of the old asset, the Consumer Advocate argues that both portions of the definition must be given the same accounting treatment.[20] It is more reasonable, however, that these two aspects of a replacement are separately listed because they should be given *different* accounting treatments.[21]

More to the point, the Consumer Advocate's argument betrays a fundamental misunderstanding of the nature of the provision at issue. As was confirmed during cross-examination of the Consumer Advocate's witness, this provision is in the Definitions section of the USOA, not any of the Instructions sections.[22] As a result, it merely defines certain terms; it does not provide any guidance on what to do with those terms. Rather, the guidance on how to apply those terms comes from the Instructions sections. And, as set forth above, those Instructions sections explicitly direct utilities to record cost of removal to depreciation for all retirement projects, "with or without replacement."[23] The Consumer Advocate's attempt to create a wholly novel approach to cost of removal accounting based upon an implausible interpretation of a single Definition, read in isolation of the rest of the USOA, should be rejected.

The Consumer Advocate's criticisms of Atmos Energy's depreciation studies also fail. For example, the Consumer Advocate makes much of the fact that the overall cost of removal has

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20 Pre-Filed Direct Testimony of Michael A. Majoros at 19:3-10.

21 Pre-Filed Rebuttal Testimony of Ned W. Allis at 8:1-25.

22 11/6/2023 Hearing Transcript at 56:8-10.

23 USOA, Gas Plant Instruction 10(B)(2).

increased as a result of these new studies.[24] But, as Mr. Allis explained, this is merely a function of Atmos Energy spending more money on replacement activity during that period; because a portion of replacement activity is assigned to cost of removal, increased replacement activity will also increase the amount booked to cost of removal, no matter the ratio.[25]

The Consumer Advocate also implied that cost of removal expense increased across the board by focusing on cherry-picked accounts shown in Hearing Exhibit 1.[26] As drawn out on cross-examination, however, there are several other accounts where the projected cost of removal rate decreased.[27] In fact, the same is true as to the overall ratio of expense assigned to cost of removal, which also actually decreased as a result of these studies.[28] In other words, cost of removal would have been even higher but for the existence of these new studies, meaning they had the opposite effect than the one claimed by the Consumer Advocate.[29]

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24 Pre-Filed Direct Testimony of Michael A. Majoros at 22:18-19; 11/6/2023 Hearing Transcript at 62:1-18.

25 Pre-Filed Rebuttal Testimony of Ned W. Allis at 12:8-13:11.

26 *See, e.g.,* 11/6/2023 Hearing Transcript at 16:9-10 (claim made in opening statement that, "the Atmos cost of removal has gone from a negative 23 to a negative 40"); *id.* at 33:3-34:7 (cross-examination of Atmos Energy's witness on the increase in estimated net salvage percentage of two specific accounts).

27 *Id.* at 61:8-61:25 (directing Mr. Majoros to examples of the estimated net salvage percent decreasing as a result of the new study).

28 Pre-Filed Rebuttal Testimony of Ned W. Allis at 12:8-13:11.

29 This fact, standing alone, disproves the Consumer Advocate's baseless insinuation that these depreciation studies are a mere pretext for increasing customer rates. To be clear, however, other reasons for rejecting that claim abound. For example:

i. when pressed, the Consumer Advocate's witness could identify no basis for his claim that these studies were "a ruse to increase cost of removal" beyond milquetoast language contained in the studies that they would be used in cost of removal allocations (11/6/2023 Hearing Transcript at 58:13-59:13); and

In addition, the Consumer Advocate criticized Atmos Energy's studies for their use of estimates in determining the precise the amount of replacement work to be allocated to cost of removal.[30] The Consumer Advocate did not, however, (i) dispute the fact that these estimates were the result of a detailed study or (ii) raise any objections to the methods used in that study.[31] Nor, contrary to the claims it made in its Opening Statement,[32] did the Consumer Advocate propose using anything besides that very same estimate—after all his criticisms of the number as "arbitrary," Mr. Majoros nevertheless proposed using the same 5% figure in his own model[33] (although, as explained below, that estimate is not appropriate in that context).

In sum, neither (i) the basis for the Consumer Advocate's position nor (ii) its criticisms of the Company's positions have merit. As a result, Atmos Energy respectfully submits that the Consumer Advocate's position should be rejected.

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ii. if the plan had been to increase cost of removal by any means necessary, the Company could have used the "common costs" method approved in its prior study, which would have resulted in higher cost of removal. (Pre-Filed Rebuttal Testimony of Ned. W. Allis at 11:1-12:7.)

30 *See, e.g.,* Pre-Filed Direct Testimony of Michael A. Majoros at 2:11, 18:16-19:2, & 21:15-24:21 (criticizing the allocation of 5% of replacement expense to cost of removal as "arbitrary"); 11/6/2023 Hearing Transcript at 16:15-18, 20:1-7 (portions of opening statement making reference to "estimates" used in allocating a portion of replacement expenses to cost of removal).

31 *See* Pre-Filed Rebuttal Testimony of Ned W. Allis at 14:1-9.

32 11/6/2023 Hearing Transcript at 17:9-11 (claiming, incorrectly, that "Mr. Majoros uses the actual cost, known and measurable, of what it takes to remove the item").

33 Pre-Filed Direct Testimony of Michael A. Majoros at 25:13-14 ("Next, I applied the Alliance Studies 5% allocation ratio . . .); 11/6/2023 Hearing Transcript at 54:18-22 ("using the 24 percent *and Alliance's 5 percent cost-of-removal factor*").

III. The Consumer Advocate's proposed alternative does not work.

Even if the Consumer Advocate's objections had merit (they do not), the Commission should still reject the proposed alternative, which is not workable. Under the Consumer Advocate's model, cost of removal would only be recorded for retirement only projects, which it claimed was approximately 24% of all retirement projects.[34] As discussed above, under general accounting principles, 100% of the costs incurred solely to remove an asset from service without replacement should be treated as cost of removal and included in depreciation expense, as the only purpose of those costs is removing the asset from service. For reasons that were never explained, however, the Consumer Advocate proposed allocating only 5% of those expenses to cost of removal, even on retirement-only projects, resulting in an artificially low cost of removal.[35] As a result, the Consumer Advocate's proposal is incorrect and must be rejected, even if the Commission disagrees with Atmos Energy's approach.

CONCLUSION

Atmos Energy's depreciation studies were conducted in accordance with industry standards, the provisions of the Uniform System of Accounts, and Commission precedent. The criticisms leveled by the Consumer Advocate are without merit, and its counter-proposal is unsupported by any precedent or accounting principles and is unworkable in any event. The Company therefore respectfully requests that the Commission approve its depreciation studies as filed and without modification.

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34 Pre-Filed Direct Testimony of Michael A. Majoros at 25:13-14; 11/6/2023 Hearing Transcript at 54:18-22.

35 *See* Pre-Filed Rebuttal Testimony of Ned W. Allis at 14:10-15:3; 11/6/2023 Hearing Transcript at 31:1-25.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served, via the method(s) indicated below, on the following counsel of record, this the 22nd day of November, 2023.

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