

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

IN RE:

**PETITION OF ATMOS ENERGY)
CORPORATION FOR APPROVAL)
OF ITS 2025 ANNUAL RATE) DOCKET NO. 25-00007
REVIEW FILING PURSUANT TO)
TENN. CODE ANN. § 65-5-103(d)(6))**

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

1 **I. INTRODUCTION OF WITNESS**

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

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

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

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

1 the established revenue requirement, the Company's rates will be increased or
2 decreased, as appropriate.

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

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

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

9 A. Yes.

10 **Q. WHAT CALCULATIONS HAVE YOU PERFORMED FOR YOUR**
11 **TESTIMONY IN THIS PROCEEDING?**

12 A. I have calculated the Company's cost of service, or revenue requirement, for the
13 Historic Test Period ended September 30, 2024, that is needed for the Company to
14 earn its authorized return on equity. I have also calculated the Annual
15 Reconciliation Revenue Requirement ("ARRR") for the Historic Test Period. The
16 results and supporting calculations are shown in the Revenue Requirement Model,
17 Schedules 1-11. All of the calculations were made in accordance with the Approved
18 Methodologies.

19 **Q. PLEASE SUMMARIZE YOUR RESULTS.**

20 A. The Company's total cost of service for the Historic Test Period ended September
21 30, 2024 is \$166,794,665. The Company's revenue at present rates utilizing current
22 tariff rates, and actual historical billing determinants normalized for weather is

5-103(d)(6), Docket No. 18-00112, *Order Approving Stipulation and Settlement Agreement*, p. 10 (December 16, 2019).

1 \$168,384,801, resulting in a revenue sufficiency for the Historic Test Period ending
2 September 30, 2024 of \$1,590,136. The ARRR comparing actual cost of service
3 excluding gas cost from the Historic Test Period with actual gross margin from the
4 same period results in a revenue deficiency of \$3,563,168. The resulting total
5 revenue deficiency is \$1,717,820. I have included in the ARM filing proposed
6 tariffs with proposed rates that produce that amount of revenue and that were
7 calculated using the Approved Methodologies.

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

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

11 A. The ARM is designed to provide the Company a reasonable and timely means of
12 recovering its cost of service for each Historic Test Period. The ARM is a
13 comprehensive mechanism that includes all components of cost of service. This
14 includes, among other things, capital investment and depreciation expense, O&M
15 expenses, and revenues as detailed in the Revenue Requirement Model. The ARM,
16 created pursuant to Tennessee Code Annotated Section 65-5-103(d)(6), is a
17 reasonable and effective solution that allows the Company timely recovery of its
18 cost of service while avoiding costly and litigious general rate cases. In approving
19 the ARM in November 2015² and modified single-filing ARM in December 2019,
20 the Commission found the mechanism to be in the public interest.³

² *In re: Petition of Atmos Energy Corporation for a General Rate Increase Under T.C.A. 65-5-103(a) and Adoption of an Annual Rate Review Mechanism Under T.C.A. 65-5-103(d)(6)*, Docket No. 14-00146, *Order Approving Settlement*, p. 10 (November 4, 2015).

³ *In re: Docket to Investigate and Consider Modifications to Atmos Energy Corporation's Annual Rate Review Mechanism Under Tenn. Code Ann. § 65-5-103(d)(6)*, Docket No. 18-00112, *Order Approving Stipulation and Settlement Agreement*, p. 10 (December 16, 2019).

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

3 A. The ARM was initially approved by the Commission in Docket No. 14-00146 by
4 Order issued on November 4, 2015.⁴ The modified approach to account for a
5 single-filing ARM was approved by the Commission in Docket No. 18-00112 by
6 Order issued on December 16, 2019.⁵

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

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

19 Through the annual ARM filing, which is filed no later than February 1 of
20 each year, the Company updates both the customer and volumetric charges of its

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

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

1 base rates in accordance with the Approved Methodologies to reflect the revenue
2 requirement.

3 **IV. REVENUE REQUIREMENT MODEL SCHEDULES**

4 **Q. PLEASE LIST THE SCHEDULES THAT COMPRISE THE COMPANY'S**
5 **REVENUE REQUIREMENT MODEL.**

6 A. The Revenue Requirement Model is comprised of:

7 Schedule 1: Cost of Service

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

9 Schedule 3: Cost of Gas

10 Schedule 4: Operation and Maintenance Expenses

11 Schedule 5: Taxes Other than Income

12 Schedule 6: Depreciation and Amortization Expenses

13 Schedule 7: Rate Base and Return

14 Schedule 8: Computation of State Excise and Income Taxes

15 Schedule 9: Overall Cost of Capital

16 Schedule 10: Rate of Return

17 Schedule 11: Proof of Revenues and Calculation of Rates

18 These schedules are included in each ARM filing per the approved ARM tariff.
19 Pursuant to the ARM tariff, I have also included the schedules traditionally used by
20 Commission Staff to illustrate that the Company's Revenue Requirement Model
21 and Staff's model reconcile.

22 **Q. PLEASE EXPLAIN SCHEDULE 1.**

23 A. Schedule 1 summarizes the elements of the cost of service, including gas cost

1 expense, O&M expense, depreciation expense, taxes other than income taxes,
2 return on rate base, income tax, allowance for funds used during construction
3 (“AFUDC”) and interest on customer deposits. Schedule 1 compares the total cost
4 of service to revenue at present rates in order to calculate a net revenue
5 deficiency/sufficiency. Additionally, Schedule 1 includes the ARRR and calculates
6 the net adjustment necessary to be implemented during the Rate Effective Year
7 (defined as the twelve months beginning June 1 of the year following the end of the
8 Historic Test Period). Schedule 1R calculates the cost of service and is used to
9 determine the ARRR.

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

11 A. Schedule 2 shows per book revenues for the Historic Test Period ended September
12 30, 2024. Schedule 3 shows the Historic Test Period per books gas cost. The
13 Historic Test Period cost of gas is adjusted to remove rent for inter-company leased
14 storage property that is booked to gas cost per the Approved Methodologies.

15 **Q. DID YOU MAKE ANY ADJUSTMENTS TO ACCOUNT FOR PREVIOUS**
16 **ARRR AMOUNTS?**

17 A. Yes. Schedule 2 contains adjustments to remove portions of previous ARRR
18 amounts approved in Dockets No. 23-00008 and No. 24-00006 that related to the
19 Historic Test Period.⁶ Those dockets adjusted rates based on a revenue sufficiency

⁶ *In re: Petition of Atmos Energy Corporation for Approval of its 2023 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 23-00008, Order Approving 2023 Annual Rate Review Filing as Revised in Rebuttal Testimony*, p.12 (June 22, 2023); *In re: Petition of Atmos Energy Corporation for Approval of its 2024 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 24-00006, Order Approving Settlement Agreement Revising 2024 Annual Rate Review Filing*, pp.10-11 (July 29, 2024).

1 of \$387,678 and a revenue deficiency of \$5,075,126, respectively.⁷

2 **Q. IS THIS THE FIRST ARM THAT REFLECTS THE FULL TRANSITION**
3 **FROM A FORWARD LOOKING TEST PERIOD TO HISTORICAL TEST**
4 **PERIOD, THUS REQUIRING AN UPDATED CALCULATION TO**
5 **REFLECT THE REMOVAL OF THE ARRR REVENUE FROM TWO**
6 **DIFFERENT ARM FILINGS?**

7 A. No. The Company made a similar adjustment the past three years due to the
8 Historic Rate Period and the Rate Effective Period being no longer synchronized.
9 This adjustment was disclosed in the 22-00010 ARM filing as a deviation and was
10 ultimately approved by the Commission.

11 **Q. HOW DID YOU DETERMINE HOW MUCH FROM EACH PERIOD TO**
12 **REMOVE?**

13 A. The portion of each of the previous two ARRR amounts should be removed in the
14 same ratio as how revenues in total are collected for the two periods of October
15 through May (Docket No. 23-00008) and June through September (Docket No. 24-
16 00006) when each of the amounts were implemented within rates. The calculations
17 used to make this adjustment have been included on a separate schedule in the
18 Company's trial balance relied upon file. In this filing, the Company used the June
19 time period as the difference since rates went into effect June 1, 2024 based on the

⁷ *In re: Petition of Atmos Energy Corporation for Approval of its 2023 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 23-00008, Order Approving 2023 Annual Rate Review Filing as Revised in Rebuttal Testimony, p.12 (June 22, 2023); In re: Petition of Atmos Energy Corporation for Approval of its 2024 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 24-00006, Order Approving Settlement Agreement Revising 2024 Annual Rate Review Filing, pp.10-11 (July 29, 2024).*

1 Commission's Order in Case No. 24-00006.⁸

2 **Q. PLEASE EXPLAIN SCHEDULE 4.**

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

10 **Q. PLEASE EXPLAIN THE ADJUSTMENT IN O&M EXPENDITURES FOR**
11 **PENSION CONTRIBUTION.**

12 A. As required by the Approved Methodologies, the Company removed the actual FAS
13 87 expenses, including SERP. In years when the Company makes actual cash
14 contributions to its pension fund, the allocable amount will be included in the ARM
15 filing. For this Historic Test Period in this filing, the Company made an actual cash
16 contribution to its pension fund, and therefore the allocable amount is \$253,459.

17 **Q. PLEASE EXPLAIN SCHEDULE 5.**

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

20 **Q. PLEASE EXPLAIN THE EXPENSE CREDIT AMOUNT FOR JUNE 2024**
21 **FOR THE COMPANY'S TENNESSEE FRANCHISE TAX AMOUNTS?**

⁸ In re: *Petition of Atmos Energy Corporation for Approval of its 2024 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, Docket No. 24-00006, *Order Approving Settlement Agreement Revising 2024 Annual Rate Review Filing*, pp.10-11 (July 29, 2024).

1 A. The expense credit amount of (\$1,330,270) in June 2024 reflects in part the one-
2 time refund received by the Company of \$1,456,103 due to the elimination of the
3 property measure from the franchise tax calculation.⁹

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

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

12 **Q. PLEASE EXPLAIN SCHEDULE 7.**

13 A. Schedule 7 shows the calculation of the Historic Test Period rate base in accordance
14 with the provisions of the ARM Tariff. The rate base includes the Regulatory Asset
15 and ratemaking adjustments consistent with the Approved Methodologies.
16 Schedule 7R calculates the historic average rate base for use in the calculation of
17 the ARRR.

18 **Q. WHAT ADJUSTMENTS ARE MADE TO THE HISTORIC TEST PERIOD**
19 **RATE BASE?**

20 A. The Company has followed all Approved Methodologies in adjusting the Historic
21 Test Period rate base. Also consistent with prior ARM filings, Schedule 7 also
22 includes adjustments for cash working capital and the net book value of inter-

⁹ S.B. 2103, 113th Gen. Assembl., Public Acts Ch. 950 (Tenn. 2024)

1 company leased storage property. The revenue and expense lag factors from the
2 Company's lead/lag study prepared in Docket No. 14-00146 were applied to actual
3 results in order to calculate the Company's actual cash working capital requirement
4 consistent with the Approved Methodologies. In Schedule 7R, I have also made
5 the adjustment to the original cost of plant to incorporate the historic average of the
6 Regulatory Asset shown on Workpaper 7-10.

7 **Q PLEASE DISCUSS THE CURRENT STATUS OF THE UNPROTECTED**
8 **PORTION OF THE AMORTIZATION OF EXCESS DEFERRED INCOME**
9 **TAX LIABILITY ("EDITL") AS SHOWN ON WORKPAPER 7-9 AND**
10 **REFLECTED ON SCHEDULE 1?**

11 A. Workpaper 7-9 contains the adjustment for EDITL. The adjustment for EDITL
12 includes additional amortization as reflected in the Settlement Agreement filed
13 November 3, 2020 in Docket No. 18-00034 Tennessee Public Utility Commission
14 Investigation of Impacts of Federal Tax Reform on the Public Utility Revenue
15 Requirements. This adjustment was also included and approved in the Company's
16 filings in Docket Nos. 21-00019, 22-00010, 23-00008 and 24-00006. The
17 Company completed after Docket No. 23-00008 the return of the unprotected
18 portion of the EDITL as shown on WP 7-9. The unprotected amortization period
19 was for a three-year period. Following Case No. 24-00006, the protected
20 amortization period was adjusted to thirty-nine years. The Company will continue
21 the process of refunding the protected portion of the EDITL over this period and
22 these calculations are reflected in WP 7-9 and ultimately incorporated on Schedule
23 1.

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

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

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

7 A. Schedule 9 shows the calculation of the overall cost of capital based on the capital
8 structure, debt cost rates, and the required rate of return on equity required for the
9 Historic Test Period. It is comprised of the actual equity balance and actual long-
10 term debt balance as of September 30, 2024, and a twelve-month average short-
11 term debt balance for the twelve months ending September 30, 2024. The
12 authorized return on equity is 9.80% and the actual cost of debt is calculated on WP
13 9-2 and WP 9-3 of the filing, per the Approved Methodologies. Schedule 9R
14 calculates overall cost of capital for use in the calculation of the ARRR.

15 **Q. IS THE COMPANY'S CAPITAL STRUCTURE PREPARED IN**
16 **ACCORDANCE WITH THE APPROVED METHODOLOGIES?**

17 A. Yes. As disclosed by the Company and approved by the Commission in Docket
18 No. 22-00010 as a deviation, the Company included an adjustment to remove \$2.2
19 billion of debt associated with Winter Storm Uri. The debt was issued in response
20 to extraordinary gas costs incurred during the winter storm and was securitized in
21 fiscal year 2023. The Company excluded this debt, as well as the impact of Winter
22 Storm Uri on the Company's deferred income taxes, because the winter storm did
23 not have the extraordinary impact on Tennessee gas costs. The Company also made

1 this same adjustment in the previous two ARM filings, Docket Nos. 23-00008 and
2 24-00006, which were approved by the Commission.¹⁰ In addition, as approved in
3 24-00006 the Company also adjusted Schedule 9 to reflect the debt securitized in
4 Kansas in June of 2023.¹¹

5 **Q. WILL THIS PREVIOUSLY APPROVED DEVIATION OF**
6 **METHODOLOGY ALSO APPLY TO THIS FILING?**

7 A. Yes.

8 **Q. PLEASE EXPLAIN SCHEDULE 10.**

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

15 **Q. PLEASE EXPLAIN SCHEDULE 11.**

16 A. Schedule 11 presents the calculation of new tariff rates by customer class and rate
17 schedule for the Rate Effective Year (defined as the twelve months beginning June
18 1 of the year following the end of the Historic Test Period) consistent with the cost
19 of service and net revenue deficiency presented in Schedule 1 (including the

¹⁰ *In re: Petition of Atmos Energy Corporation for Approval of its 2023 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 23-00008, Order Approving 2023 Annual Rate Review Filing as Revised in Rebuttal Testimony*, p.12 (June 22, 2023); *In re: Petition of Atmos Energy Corporation for Approval of its 2024 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 24-00006, Order Approving Settlement Agreement Revising 2024 Annual Rate Review Filing*, pp.10-11 (July 29, 2024).

¹¹ Winter Storm Uri debt related to Texas was securitized by the State of Texas and thus not reflected on Atmos Energy's balance sheet. Kansas Securitized debt is held in a stand-alone subsidiary.

ARRR). The revenue requirement also includes the amortization of the excess deferred income tax liability and the ARRR discussed hereinabove and referenced on Schedule 1. The net revenue requirement (comprised of the deficiency for the Historic Test Period ending September 30, 2024 plus the ARRR minus the amortization of the excess deferred tax liability) is distributed across the billing determinants (customer classes and rate schedules) in this filing, consistent with the ARM tariff and Approved Methodologies.

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

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

V. CONCLUSION

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

A. I respectfully request that the Commission approve the Company's 2025 ARM filing and the 2025 ARM Revenue Requirement, which have been prepared in accordance with the Approved Methodologies approved and adopted by the Commission in Docket No. 14-00146.

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

2 **A. Yes.**

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY CORPORATION)
FOR APPROVAL OF ITS 2025 ANNUAL RATE) DOCKET NO. 25-XXXXX
REVIEW FILING PURSUANT TO TENN.)
CODE ANN. § 65-5-103(d)(6))

VERIFICATION

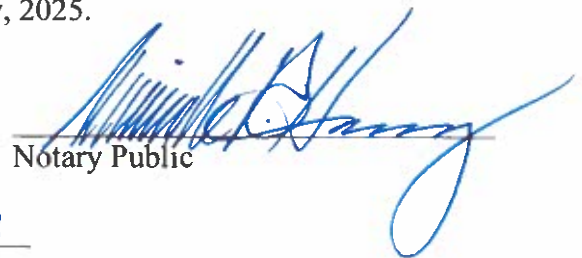
STATE OF TEXAS)

COUNTY OF DALLAS)

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


William D. Matthews

Sworn and subscribed before me this 15th day of January, 2025.


Notary Public

My Commission Expires: September 1, 2028

