Electronically Filed in
TPUC Docket Room on
April 4, 2025 at 3:23 p.m.

<u>REQUEST:</u>

Refer to Excel file 2025 Atmos Energy TN ARM Filing - Revenue Requirements Schedules.xls, Schedule 7. Provide a thorough explanation for the year-to-year increase in each of the following rate base components. For each rate base component and related year-to-year increase listed below, provide a discussion of the plant and/or projects associated with the increase, along with justification of Atmos' need for the related investment.

a. Gross Cost of Plant (UPIS), $64 million (7.2%) increase vs. PY filing
b. Construction Work in Process (CWIP), $22 million (181.1%) increase vs. PY filing

<u>RESPONSE:</u>

a. Of the combined $86 million increase in direct and allocated Gross Plant and CWIP to Tennessee in the filing, just over $85 million was attributable to capital spending within the Company's TN Division (Div 093).

Growth	$15.1MM
System Integrity	$45.2MM
System Improvements	$9.3MM
Public Improvements	$15.6MM
	$85.2MM

The Company's plant and projects by both gross plant and CWIP is broken out by the above categories. Several of the projects are related to continued system growth and system integrity in the Company's service areas, including several relocation projects and highway widening projects in coordination with TDOT, which were not as active in the previous test year. Nearly $10MM in test year capital spending is due to the SR 99 highway widening project in Murfreesboro, TN. Other major TDOT widening projects include those in Morristown, TN and Spring Hill, TN. In connection with these TDOT widening projects, the timing of which is outside the Company's control, the Company is required to acquire new property rights and incur construction costs to move and replace its existing pipeline being displaced by TDOT's widening. In addition to costs incurred in connection with these TDOT widening projects, the Company's middle Tennessee service areas, especially Murfreesboro and Columbia/Spring Hill, continue to grow.

Across Tennessee, the Company is both (i) replacing legacy pipeline and services for its existing customers as it remains focused on system safety and integrity and compliance with all applicable laws and regulations and (ii) upgrading pipeline sizing and system improvement to continue to support the ongoing development in those areas. The Company's spend is to make sure the Company is able to continue to provide safe and reliable service, and to continue to support the economic development within its service areas.

The Company's spend this fiscal year is consistent with capital spending from previous years with the exception of the SR 99 Highway relocation project mentioned above. As the Company's services areas continue to experience the growth the Company expects more relocations with TDOT in the future as well as continued growth in the number of customers.

b. The increase in Construction Work in Process (CWIP) is mainly due to SR 99 highway widening project in Murfreesboro, TN for TDOT, with nearly $10MM in test year capital spending and a total of $12MM in CWIP. This project is not anticipated to close until late 2026, and has already been delayed several times due to TDOT delays outside of the Company's control. In addition, the closing of several projects in the Company's East Tennessee service areas were delayed due to weather and flooding from Hurricane Helene in September 2024.

REQUEST:

Refer to Excel file 2025 Atmos Energy TN ARM Filing - Revenue Requirements Schedules.xls, Schedule 7R. Provide a thorough explanation for the year-to-year increase in each of the following rate base components. For each rate base component and related year-to-year increase listed below, provide a discussion of the plant and/or projects associated with the increase, along with justification of Atmos' need for the related investment.

a. Gross Cost of Plant (UPIS), $71 million (8.5%) increase vs. PY filing
b. Construction Work in Process (CWIP), $5.8 million (30.8%) increase vs. PY filing

RESPONSE:

The capital spending associated with the year over year increase in average Gross Plant and CWIP on Schedule 7R would be the same as that discussed in response to Staff 1-01, which discusses the change in ending Gross Plant and CWIP.

REQUEST:

Provide a detailed analysis of any new or incremental revenue, if any, generated by investments in rate base made during the reporting period. Provide this analysis on a project-by-project basis and the associated revenue generated (current and future) by each project. Also provide the cost/benefit analysis of each project. Explain the sources of information and assumptions used in conducting the analysis.

RESPONSE:

See confidential Attachment 1 for a list of growth projects for the test period. The Company analyzes projects in total, which may consist of several phases that take place over several years. The list of projects in confidential Attachment 1 contains only a phase of a project in many circumstances or a portion of the closed amount, which makes it difficult to compare to cost benefit analysis that are performed in some instances. The Company has also attached a sample of its analysis that it applies to all growth projects, with such analysis showing sources of data and cost/benefit analysis, as well as revenue generated. See confidential Attachment 2 through confidential Attachment 5 for a sample of the analyses for these projects.

The Company would note that also contributing to revenue growth each year is incremental load from non-residential projects that continue to develop from capital invested during previous test years. **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**

Also see General Rules and Regulations, Section 7, of the Company's tariffs. While the Company's projects in the analysis provide revenue that produces a rate of return at or greater than the allowed rate of return, the Company would also note that its service areas of both Middle Tennessee and East Tennessee are in growing areas of the state where extensions are also enhancing the opportunity of adding new customers in the future, as well as resulting in system improvements for its areas in many cases. On average, over the previous seven years the Company has added approximately 3,100 new residential customers annually, representing approximately $1.25MM annually in incremental revenue. The Company will also note that Section 7.3 of its General Rules and Regulations contains a free footage allowance for residential and commercial services, and dollar amounts for services also included in confidential Attachment 1. This represents approximately $7MM of the growth spend. Many of the Company's investments are service piping due to expanding residential areas within its service territory.

<u>ATTACHMENTS:</u>

Staff_1-03_Att1 - FY24 TN Growth by Project (CONFIDENTIAL).xlsx
Staff_1-03_Att2 - TN FY2023 Growth Model - Arbors of Compton (CONFIDENTIAL).xlsx
Staff_1-03_Att3 - TN FY2024 Growth Model - Best Farms (CONFIDENTIAL).xlsx
Staff_1-03_Att4 - TN FY2024 Growth Model - Glades at Hawley (CONFIDENTIAL).xlsx
Staff_1-03_Att5 - TN FY2024 Growth Model - Melton Estates (CONFIDENTIAL).xlsx

REQUEST:

Refer to Excel file 2025 Atmos Energy TN ARM Filing - Variances Report.xlsx, worksheet '093 O&M Sub Acct.' Provide a more thorough explanation for the year-to-year (i.e., 2024 vs. 2023) increase in each of the following operating expenses. For each expense and its related year-to-year increase listed below, provide a discussion of the driver(s) for the increase, along with justification of Atmos' need for the expenditures.

a. Labor accounts 01000 thru 01014, $346 thousand (10.6%) increase
b. Inventory Materials account 02001, $137 thousand (41.2%) increase
c. Non-inventory Supplies account 02005, $73 thousand (44.8%) increase
d. Non-842 Heavy Equipment account 04309, $71 thousand (493.9%) increase
e. Contract Labor account 06111, $495 thousand (10.9%) increase

RESPONSE:

a. The variance in labor accounts 01000 thru 01014 is primarily related to headcount increases due to the Company bringing damage prevention in-house in several of its service areas.

b. The change in Inventory Materials account 02001 is primarily due to restocks of MRC Global materials that the Company stocks in its service centers. This variance has been affected by increased restocks and price increases in those materials compared to previous years.

c. The majority of the fluctuation in Non-inventory Supplies account 02005 is due to spill kits purchased for the Company's city gate stations, which total $50K. The hazardous spill kits are required for facilities with stored liquids greater than 50 gallons, primarily odorizers. The kits are a one-time purchase that will remain unless used, which the Company does not anticipate.

d. The primary driver in an increase in Non-842 Heavy Equipment account 04309 is additional backhoe leases for the Franklin/Columbia/Spring Hill region due to continued growth and construction in the region.

e. The increase in Contract Labor account 06111 is due to a variety of factors, including increased AMLD leak surveying for system safety, as well as safety barricades, painting, increased station maintenance, and a system-wide flow study ($355k) for operational safety reasons due to Tennessee's continued growth and the need to maintain operational pressures during periods of high system demand.

REQUEST:

Refer to Excel file 2025 Atmos Energy TN ARM Filing - Variances Report.xlsx, worksheet ‘012 O&M Acct.’ Provide a more thorough explanation for the year-to-year (i.e., 2024 vs. 2023) increase in account 9260, A&G, Employee Pensions and Benefits. This account increased significantly in 2024 as compared to previous years, and the 2024 amount was 46.1% above the 2023 level. Provide a thorough discussion of the driver(s) for the increase, along with justification of Atmos’ need for the increased expenditures.

RESPONSE:

The increase in Account 926 for Shared Services Div 012 is primarily due to $113,912 of incentive compensation for VPP/MIP that was recorded for the first time to Div 012 in Fiscal 2024. In prior years, all of Shared Services VPP/MIP expense (Div 002 and Div 012 employees) was recorded to Div 002. Thus, there was no VPP/MIP expense recorded directly to Div 012 in Fiscal 2023 which is causing the increase when compared to Fiscal 2024. A corresponding decrease of $116,604 allocated to TN can be found on worksheet '002 O&M Acct' in account 9260, A&G, Employee Pensions and Benefits.

In addition, there was an increase of $32,248 related to higher medical/dental costs for active employees.

For regulatory purposes, incentive compensation expense is removed as shown on Schedule 4-1, line 23 per the Approved Methodologies.