

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

IN RE:

**PETITION OF ATMOS ENERGY)
CORPORATION FOR APPROVAL)
OF ITS 2026 ANNUAL RATE) DOCKET NO. 26-00009
REVIEW FILING PURSUANT TO)
TENN. CODE ANN. § 65-5-103(d)(6))**

**PRE-FILED TESTIMONY OF MAUREEN H. MELSON
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 Maureen H. Melson. I am Manager Rates and Regulatory Affairs with
4 Atmos Energy Corporation (“Atmos Energy” or “Company”). My business address
5 is 5420 LBJ Freeway, Ste. 1600, Dallas, Texas 75240.

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

8 A. I hold a Bachelors of Business Administration and Masters of Accountancy from
9 Baylor University. I am a Certified Public Accountant in the State of Texas. My
10 professional career began serving as an Auditor with KPMG. I began my career
11 with Atmos Energy in 2009 as a Sr. Financial Reporting Analyst with
12 responsibilities that included assisting with the preparation of both SEC and
13 Regulatory filings. I was promoted to Manager Distribution Gas Accounting in
14 2014. My role within gas accounting included oversight of revenue, purchase and
15 storage accounting which included accounting for base rate revenues, gas cost,

1 WNA, Securitization as well as various regulatory tracking mechanisms. I was
2 named Manager of Rates and Regulatory in September 2025.

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

4 A. I am currently responsible for managing rate proceedings primarily filed with state
5 regulatory bodies on behalf of the Company. My responsibilities include execution
6 of applications for changes to rates and tariffs as part of traditional rate cases, tariff
7 language change proposals, and annual rate making mechanisms that the Company
8 files in the eight states in which it has regulated operations.

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR ANY OTHER**
10 **REGULATORY COMMISSION?**

11 A. No.

12 **II. PURPOSE OF TESTIMONY**

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. The purpose of my testimony is to calculate the Company's annual revenue
15 requirement for the Historic Test Period ending September 30, 2025, as prescribed
16 in Section IV of the Company's Annual Review Mechanism ("ARM") tariff. The
17 resulting revenue requirement establishes the amount of revenue required for the
18 Company to earn its authorized return on equity for the Historic Test Period ending
19 September 30, 2025, in accordance with the approved methodologies ("Approved
20 Methodologies") as defined in the Company's approved ARM tariff.¹ Based upon

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 Review Mechanism Under T.C.A. 65-5-103(d)(6)*, Docket No. 14-00146, *Order Approving Settlement*, p. 10 (November 4, 2015); *see also 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 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, 2025, 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, 2025 is \$197,837,745. The Company's revenue at present rates utilizing current
22 tariff rates, and actual historical billing determinants normalized for weather is
23 \$189,538,644, resulting in a revenue deficiency for the Historic Test Period ending

1 September 30, 2025 of \$8,299,101. The ARRR comparing actual cost of service
2 excluding gas cost from the Historic Test Period with actual gross margin from the
3 same period results in a revenue deficiency of \$6,634,462. The resulting total
4 revenue deficiency is \$14,678,350. I have included in the ARM filing proposed
5 tariffs with proposed rates that produce that amount of revenue and that were
6 calculated using the Approved Methodologies.

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

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

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

20 **Q. WHEN AND HOW WAS THE ANNUAL REVIEW MECHANISM**

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 **APPROVED BY THE COMMISSION?**

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

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

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

18 Through the annual ARM filing, which is filed no later than February 1 of
19 each year, the Company updates both the customer and volumetric charges of its
20 base rates in accordance with the Approved Methodologies to reflect the revenue

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 requirement.

2 **IV. REVENUE REQUIREMENT MODEL SCHEDULES**

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

5 A. The Revenue Requirement Model is comprised of:

6 Schedule 1: Cost of Service

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

8 Schedule 3: Cost of Gas

9 Schedule 4: Operation and Maintenance Expenses

10 Schedule 5: Taxes Other than Income

11 Schedule 6: Depreciation and Amortization Expenses

12 Schedule 7: Rate Base and Return

13 Schedule 8: Computation of State Excise and Income Taxes

14 Schedule 9: Overall Cost of Capital

15 Schedule 10: Rate of Return

16 Schedule 11: Proof of Revenues and Calculation of Rates

17 These schedules are included in each ARM filing per the approved ARM tariff.

18 Pursuant to the ARM tariff, I have also included the schedules traditionally used by

19 Commission Staff to illustrate that the Company's Revenue Requirement Model

20 and Staff's model reconcile.

21 **Q. PLEASE EXPLAIN SCHEDULE 1.**

22 A. Schedule 1 summarizes the elements of the cost of service, including gas cost
23 expense, O&M expense, depreciation expense, taxes other than income taxes,

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

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

10 A. Schedule 2 shows per book revenues for the Historic Test Period ended September
11 30, 2025. Schedule 3 shows the Historic Test Period per books gas cost. The
12 Historic Test Period cost of gas is adjusted to remove rent for inter-company leased
13 storage property that is booked to gas cost per the Approved Methodologies.

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

16 A. Yes. Schedule 2 contains adjustments to remove portions of previous ARRR
17 amounts approved in Dockets No. 24-00006 and No. 25-00007 that related to the
18 Historic Test Period.⁶ Those dockets adjusted rates based on a revenue deficiency

⁶ *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); In re: Petition of Atmos Energy Corporation for Approval of its 2025 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6), Docket No. 25-00007, Order Approving Settlement Agreement Revising 2025 Annual Rate Review Filing, pp.10-11 (July 15, 2025).*

1 of \$5,075,126 and a revenue deficiency of \$3,550,585, respectively.⁷

2 **Q. HOW DID YOU DETERMINE HOW MUCH FROM EACH PERIOD TO**
3 **REMOVE?**

4 A. The portion of each of the previous two ARRR amounts should be removed in the
5 same ratio as how revenues in total are collected for the two periods of October
6 through May (Docket No. 24-00006) and June through September (Docket No. 25-
7 00007) when each of the amounts were implemented within rates. The calculations
8 used to make this adjustment have been included on a separate schedule in the
9 Company's trial balance relied upon file. In this filing, the Company used the June
10 time period as the difference since rates went into effect June 1, 2025 based on the
11 Commission's Order in Case No. 25-00007.⁸

12 **Q. PLEASE EXPLAIN SCHEDULE 4.**

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

⁷ *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); *In re: Petition of Atmos Energy Corporation for Approval of its 2025 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, Docket No. 25-00007, *Order Approving Settlement Agreement Revising 2025 Annual Rate Review Filing*, pp.10-11 (July 15, 2025).

⁸ *In re: Petition of Atmos Energy Corporation for Approval of its 2025 Annual Rate Review Filing Pursuant to Tenn. Code Ann. § 65-5-103(d)(6)*, Docket No. 25-00007, *Order Approving Settlement Agreement Revising 2025 Annual Rate Review Filing*, pp.10-11 (July 15, 2025).

1 **Q. PLEASE EXPLAIN THE ADJUSTMENT IN O&M EXPENDITURES FOR**
2 **PENSION CONTRIBUTION.**

3 A. As required by the Approved Methodologies, the Company removed the actual FAS
4 87 expenses, including SERP. In years when the Company makes actual cash
5 contributions to its pension fund, the allocable amount will be included in the ARM
6 filing. For this Historic Test Period in this filing, the Company made no actual cash
7 contribution to its pension fund, and therefore the allocable amount is \$0.

8 **Q. PLEASE EXPLAIN SCHEDULE 5.**

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

11 **Q. PLEASE EXPLAIN THE EXPENSE AMOUNT FOR SEPTEMBER 2025**
12 **FOR THE COMPANY'S TENNESSEE STATE GROSS RECEIPTS TAX**
13 **AMOUNTS?**

14 A. The expense amount increase for State Gross Receipts in September 2025 of \$1.6M
15 is attributable to a tax audit assessment.

16 **Q. PLEASE EXPLAIN SCHEDULE 6.**

17 A. Schedule 6 shows the Historic Test Period per books depreciation and amortization
18 expense. Schedule 6 includes ratemaking adjustments to reflect end of Historic
19 Test Period plant levels, and those consistent with the Approved Methodologies. I
20 adjusted the Historic Test Period depreciation expense to include expense for
21 intercompany leased storage property per the Approved Methodologies, as well as
22 to adjust for the removal of depreciation expense on capitalized incentive
23 compensation.

1 **Q. PLEASE EXPLAIN SCHEDULE 7.**

2 A. Schedule 7 shows the calculation of the Historic Test Period rate base in accordance
3 with the provisions of the ARM Tariff. The rate base includes the Regulatory Asset
4 and ratemaking adjustments consistent with the Approved Methodologies.
5 Schedule 7R calculates the historic average rate base for use in the calculation of
6 the ARRR.

7 **Q. ARE THERE ANY UPDATES TO THE METHODOLOGY FOR THE**
8 **HISTORIC TEST PERIOD RATE BASE?**

9 A. The Company has updated the Schedules to reflect new accounts created in
10 response to recent regulatory approvals in other jurisdictions, although those new
11 accounts do not directly affect this year's calculations in Tennessee. The Company
12 recently received approval to capitalize certain Cloud Computing costs for Mid-
13 Tex Unincorporated Areas, Mid-Tex ATM Cities, West Texas, Kentucky and
14 Mississippi⁹. Cloud Computing costs attributable to these approvals for Shared
15 Services Divisions 002 and 012 are recorded in newly created plant accounts—
16 399.0801 and 399.0802. For purposes of this filing, no amounts have been
17 allocated to Tennessee. Consistent with the prior year filing we have adjusted rate
18 base to include Cloud Computing costs captured within FERC accounts 174, 182.3
19 and 186 for Tennessee's applicable allocation of Cloud Computing software

⁹ Docket No. OS-24-00019196, consol., *Statement of Intent Filed by Atmos Energy Corp. to Change Gas Rates Within the Unincorporated Areas of the Mid-Tex Division*, Final Order at Finding of Fact ("FoF") No. 54 (issued by R.R. Comm'n Tex. June 17, 2025); Docket OS-24-00018879, consol., *Statement of Intent Filed by Atmos Energy Corp. to Change Gas Utility Rates within the Unincorporated Areas Served by Its West Texas Division*, Final Order at FoF No. 60 (issued by R.R. Comm'n Tex. May 13, 2024); Docket No. 2-25-UN-50, *Re: Notice of Intent of Atmos Energy Corporation to Change Rates to Support System Integrity Plan and Continued Modernization of Infrastructure* (Miss. Pub. Serv. Comm'n Nov. 4, 2025)

1 implementation costs. As discussed in Section V. Proposed Updates to Annual
2 Mechanism, the Company is proposing a new accounting treatment for Cloud
3 Computing costs moving forward, although that new treatment is not being applied
4 in this filing.

5 **Q. WHAT ADJUSTMENTS ARE MADE TO THE HISTORIC TEST PERIOD**
6 **RATE BASE?**

7 A. The Company has followed all Approved Methodologies in adjusting the Historic
8 Test Period rate base. Also consistent with prior ARM filings, Schedule 7 also
9 includes adjustments for cash working capital and the net book value of inter-
10 company leased storage property. The revenue and expense lag factors from the
11 Company's lead/lag study prepared in Docket No. 14-00146 were applied to actual
12 results in order to calculate the Company's actual cash working capital requirement
13 consistent with the Approved Methodologies. In Schedule 7R, I have also made
14 the adjustment to the original cost of plant to incorporate the historic average of the
15 Regulatory Asset shown on Workpaper 7-10.

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

20 A. Workpaper 7-9 contains the adjustment for EDITL. The Company completed after
21 Docket No. 23-00008 the return of the unprotected portion of the EDITL as shown
22 on WP 7-9. The unprotected amortization period was for a three-year period.
23 Following Case No. 24-00006, the protected amortization period was adjusted to

1 thirty-nine years. The Company will continue the process of refunding the
2 protected portion of the EDITL over this period and these calculations are reflected
3 in WP 7-9 and ultimately incorporated on Schedule 1.

4 **Q. PLEASE EXPLAIN SCHEDULE 8.**

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

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

10 A. Schedule 9 shows the calculation of the overall cost of capital based on the capital
11 structure, debt cost rates, and the required rate of return on equity required for the
12 Historic Test Period. It is comprised of the actual equity balance and actual long-
13 term debt balance as of September 30, 2025, and a twelve-month average short-
14 term debt balance for the twelve months ending September 30, 2025. The twelve-
15 month average short-term debt balance was \$0 at September 2025 and therefore no
16 short-term debt rate was applied. The authorized return on equity is 9.80% and the
17 actual cost of debt is calculated on WP 9-2 and WP 9-3 of the filing, per the
18 Approved Methodologies. Schedule 9R calculates overall cost of capital for use in
19 the calculation of the ARRR.

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

22 A. Yes. As disclosed by the Company and approved by the Commission in Docket
23 No. 22-00010 as a deviation, the Company included an adjustment to remove \$2.2

1 billion of debt associated with Winter Storm Uri. The debt was issued in response
2 to extraordinary gas costs incurred during the winter storm and was securitized in
3 fiscal year 2023. The Company excluded this debt, as well as the impact of Winter
4 Storm Uri on the Company's deferred income taxes, because the winter storm did
5 not have the extraordinary impact on Tennessee gas costs. The Company also made
6 this same adjustment in the previous three ARM filings, Docket Nos. 23-00008,
7 24-00006 and 25-00007 which were approved by the Commission.¹⁰ In addition,
8 as approved in 24-00006 the Company also adjusted Schedule 9 to reflect the debt
9 securitized in Kansas in June of 2023.¹¹

10 **Q. WILL THIS PREVIOUSLY APPROVED DEVIATION OF**
11 **METHODOLOGY ALSO APPLY TO THIS FILING?**

12 A. Yes.

13 **Q. PLEASE EXPLAIN SCHEDULE 10.**

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

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.

1 **Q. PLEASE EXPLAIN SCHEDULE 11.**

2 A. Schedule 11 presents the calculation of new tariff rates by customer class and rate
3 schedule for the Rate Effective Year (defined as the twelve months beginning June
4 1 of the year following the end of the Historic Test Period) consistent with the cost
5 of service and net revenue deficiency presented in Schedule 1 (including the
6 ARRR). The revenue requirement also includes the amortization of the excess
7 deferred income tax liability and the ARRR discussed hereinabove and referenced
8 on Schedule 1. The net revenue requirement (comprised of the deficiency for the
9 Historic Test Period ending September 30, 2025 plus the ARRR minus the
10 amortization of the excess deferred tax liability) is distributed across the billing
11 determinants (customer classes and rate schedules) in this filing, consistent with the
12 ARM tariff and Approved Methodologies.

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

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

22

23

1 **V. PROPOSED UPDATES TO ANNUAL MECHANISM**

2 **Q. PLEASE DESCRIBE THE CONCEPT OF CLOUD COMPUTING AND**
3 **HOW IT IS USED IN THE COMPANY’S OPERATIONS.**

4 A. Cloud Computing is the delivery of Information Technology (“IT”) products,
5 including servers, storage, databases, networking and software, over the internet or
6 “cloud.” The Company does not take possession of the software or hardware
7 because it is owned, hosted, and maintained by a third-party provider. To use the
8 capabilities of these products, the Company pays an annual fee for the use of the
9 software, the hosting services and necessary maintenance. Examples of Atmos
10 Energy’s Cloud Computing implementations and subscriptions include digital
11 construction management, supplier management, data analytics, leak survey data
12 management, emergency callout systems, productivity support, business continuity
13 services, customer billing and relationship management, human resources
14 management, collaboration services, budgeting and planning, ticket management
15 solutions, and regulatory reporting, accounting, and audit support. These programs
16 are essential for the Company’s ability to provide safe and reliable service to
17 customers.

18 **Q. DOES THE COMPANY PROPOSE CHANGES TO THE ANNUAL**
19 **MECHANISM FOR CLOUD COMPUTING?**

20 A. Yes. The Company is requesting authorization from the Commission to account for
21 Cloud Computing software in a manner more consistent with how these same types
22 of hardware and software were accounted for when the Company purchased and
23 owned the hardware and software directly rather than obtaining it through Cloud

1 Computing contracts. In particular, the Company is requesting authorization from
2 the Commission to capitalize the implementation and subscription costs associated
3 with Cloud Computing hardware and software contracts having terms greater than
4 one year in FERC account 399.08.

5 **Q. ARE CLOUD COMPUTING COSTS ELIGIBLE FOR CAPITALIZATION?**

6 A. Yes. The Company's existing Cloud Computing arrangements ("CCAs") are for
7 software as a service ("SAS") and infrastructure as a service ("IFS"). These services
8 may be capitalized after evaluation under specific accounting guidance. As
9 technology has advanced, vendors now offer more Cloud Computing type
10 arrangements for software delivery and use. In response, the Financial Accounting
11 Standards Board ("FASB") issued two guidance codifications to clarify the
12 accounting treatment previously only captured in ASC 350-40, *Internal Use*
13 *Software*. First, in 2015, FASB's ASU 2015-05, *Customer's Accounting for Fees*
14 *Paid in a Cloud Computing Arrangement*, clarified that identifiable costs associated
15 with licenses may be treated the same as internal use software and may be
16 capitalized. However, for such treatment to be appropriate under the FASB's 2015
17 guidance, 1) the CCA must include a contractual right to take possession of the
18 software at any time may occur without significant penalty or loss in functionality;
19 and 2) it must be feasible to run the software on the Company's own hardware or
20 contract with another party to do so. These criteria proved difficult to apply, as not
21 all CCAs include the detail to reasonably make that determination. If the
22 determination cannot be made, no costs would be capitalized despite the long-term
23 benefit to the Company.

1 After the implementation of ASU 2015-05, stakeholders requested further
2 clarification in applying the above concepts. In response to those inquiries, the
3 FASB issued ASU 2018-15, *Customer's Accounting for Implementation Costs*
4 *Incurred in a Cloud Computing Arrangement That is a Service Contract*, which
5 aligned the treatment of cloud implementation costs with other ASC 350-40
6 principles for on-premise internal use software (allowing for capitalization/deferral
7 of specific implementation costs and expensing the ongoing subscription and
8 hosting costs). This is the guidance followed for Cloud Computing arrangements
9 today.

10

11 **Q. DOES THE COMPANY CURRENTLY CAPITALIZE ANY CLOUD**
12 **COMPUTING COSTS?**

13 A. The Company currently includes implementation costs for “cloud-based” or SAS
14 solutions as an adjustment to rate base. The Company proposes that, upon approval
15 of rates in this docket, Cloud Computing implementation costs recorded in accounts
16 174, 186, and 182.3 effective June 1, 2026 for software as a service arrangement be
17 moved and recorded in plant account 399.08.

18 **Q. HAS THE COMPANY'S PROPOSED ACCOUNTING TREATMENT BEEN**
19 **APPROVED FOR OTHER ATMOS ENERGY DIVISIONS AND OTHER**
20 **LOCAL DISTRIBUTION COMPANIES?**

1 A. Yes. The Railroad Commission of Texas (“RCT”) has authorized Atmos Energy,¹²
2 as well as other natural gas utilities within that state,¹³ to capitalize Cloud
3 Computing costs and recover these amounts in future annual capital tracker filings.
4 Additionally, the Company has received approval for its proposed treatment in
5 Kentucky and Mississippi. The Company is requesting this treatment in each of its
6 jurisdictions as it files rate proceedings.

7 **Q. IS THE COMPANY PROPOSING ANY RATE BASE AND O&M**
8 **RELATED ADJUSTMENTS FOR ONGOING SUBSCRIPTION COSTS**
9 **FOR CCAS IN FUTURE PERIODS?**

10 A. Yes. Ongoing third-party costs for CCAs are currently recorded in prepayments
11 (FERC account 165) and are amortized over the life of the arrangement to expense.
12 Upon approval in this proceeding, effective June 1, 2026, the Company proposes
13 to (a) capitalize existing prepayment balances as of June 1, 2026, (b) record any
14 new amounts directly to plant account 399.08, and (c) discontinue the recording of
15 amortization expense on new amounts in O&M. These amounts transferred and
16 recorded to plant account 399.08 would then have depreciation expense calculated
17 at current depreciation rates.

¹² See *supra* footnote 9.

¹³ See Docket OS-22-00009896, consol., *Statement of Intent of Texas Gas Service Company, a Division of ONE Gas, Inc., to Change Gas Utility Rates Within the Unincorporated Areas of the West Texas Service Area, North Texas Service Area, and the Borger Skellytown Service Area*, Final Order at FoF Nos. 51 and 52 (R.R. Comm’n Tex. Jan. 18, 2023). TGS ultimately records these costs to gas plant account 391.99 - Cloud Computing. See also Docket OS-23-00015513, consol., *Statement of Intent Filed by CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas Energy Entex to Change Rates in the Unincorporated Areas and Municipalities That Have Ceded Original Jurisdictions Within The Houston, Texas Coast, Beaumont/East Texas, and South Texas Divisions*, Final Order at FoF No. 50 (R.R. Comm’n Tex. June 25, 2024), wherein the RCT allowed CenterPoint to capitalize 100% of its cloud computing costs to FERC account 186 and recover those costs in its annual capital tracker filings.

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

IN RE:

PETITION OF ATMOS ENERGY CORPORATION)
FOR APPROVAL OF ITS 2026 ANNUAL RATE) DOCKET NO. 26-XXXXX
REVIEW FILING PURSUANT TO TENN.)
CODE ANN. § 65-5-103(d)(6))

VERIFICATION

STATE OF TEXAS)
COUNTY OF DALLAS)

I, Maureen H. Melson, 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 Maureen H. Melson in support of Atmos Energy Corporation's filing is true and correct to the best of my knowledge, information and belief.

Maureen H Melson
Maureen H. Melson

Sworn and subscribed before me this 29th day of January, 2026.

[Signature]
Notary Public

My Commission Expires: September 1, 2028

