

BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION

NASHVILLE, TENNESSEE

July 22, 2026

IN RE:

PETITION OF ATMOS ENERGY CORPORATION
FOR APPROVAL OF ITS 2026 ANNUAL RATE
REVIEW FILING PURSUANT TO TENN. CODE
ANN. § 65-5-103(d)(6)

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DOCKET NO.
26-00009

ORDER APPROVING STIPULATION AND SETTLEMENT AGREEMENT REVISING
2026 ANNUAL RATE REVIEW MECHANISM FILING

This matter came before Vice Chairman John A. Hie, Commissioner Robin L. Morrison, Commissioner Clay R. Good, Commissioner Kenneth C. Hill, and Commissioner David Crowell of the Tennessee Public Utility Commission (the “Commission” or “TPUC”), the voting panel assigned to this docket, during a regularly scheduled Commission Conference held on June 1, 2026. The panel convened to consider the *Stipulation and Settlement Agreement* (“*Settlement Agreement*”) filed by Atmos Energy Corporation (“Atmos” or “Company”) and the Consumer Advocate Division of the Office of the Tennessee Attorney General (“Consumer Advocate”) on May 12, 2026. The *Settlement Agreement* concerns Atmos’s 2026 Tennessee Annual Rate Review Mechanism Filing (“*2026 ARRM Filing*”) filed on January 30, 2026.

BACKGROUND

In Docket No. 14-00146, the Commission approved a settlement agreement between Atmos and the Consumer Advocate implementing an Annual Rate Review Mechanism (“ARRM”) pursuant to Tenn. Code Ann. § 65-5-103(d)(6) for Atmos.¹ Under this mechanism, the Commission conducts

¹ See *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* (November 4, 2015) (hereinafter *Atmos Rate Case*).

annual rate reviews in lieu of a general rate case.² In accordance with the *Order Approving Settlement* in Docket No. 14-00146, the 12-month period ending September 30th of each year prior to the annual ARRM filing date of February 1st is to be used as the test year, with rates established based on a forward-looking test year for the 12-month period ending May 31st of each following year.³ In addition, the Company was required to use the authorized return on equity established in Docket No. 14-00146.⁴

The second step of the ARRM required the Company to file an Annual Reconciliation to the authorized return on equity by September 1st of each year.⁵ This filing was required to reconcile actual amounts to the Company's authorized return on equity for the forward-looking test year that immediately completed, inclusive of interest at the overall cost of capital compounded for two years.⁶ The resulting rates would be effective on bills rendered on or after June 1st.⁷

In Docket No. 18-00112, the Company, the Consumer Advocate, and Commission Party Staff ("Party Staff") examined potential modifications to Atmos's ARRM. The Parties ultimately reached an agreement that was approved by the Commission. The Commission found that the proposed settlement terms and procedures of the modified ARRM were reasonable and consistent with the provisions of Tenn. Code Ann. § 65-5-103(d)(6), that the transition schedule from two annual filings to a single filing was reasonable and appropriate, and that the modified ARRM continued to be in the public interest.⁸ The Company's two most recent ARRM filings were also resolved through the

² Tenn. Code Ann. § 65-5-103(d)(6).

³ *Atmos Rate Case*, Docket No. 14-00146, *Order Approving Settlement*, pp. 5-6 (November 4, 2015).

⁴ *Id.*

⁵ *Id.* at 5.

⁶ *Id.*

⁷ *Id.* at 7.

⁸ *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*, pp. 9-10 (December 16, 2019).

approval of settlement agreements with the Consumer Advocate in Docket No. 25-00007.⁹

THE 2026 ARRM FILING

Atmos filed its *2026 ARRM Filing*, including the pre-filed direct testimony of Maureen H. Melson, Manager of Rates and Regulatory Affairs, on January 30, 2026. The *2026 ARRM Filing* proposed a \$14,678,350 revenue deficit, supported by the requisite workpapers, schedules, testimony, attestation, and proposed tariff revisions. In pre-filed testimony supporting the filing, Ms. Matthews calculated Atmos's total cost of service as of September 30, 2025, the end of the historic test period, at \$197,837,745.¹⁰ According to Ms. Melson, the Company's 12-month revenue as of September 30, 2025, using current tariff rates and weather-normalized actual billing determinants was \$189,538,644, resulting in a revenue deficiency of \$8,299,101.¹¹

The Company's Annual Reconciliation Revenue Requirement ("ARRR") is a comparison of the Company's actual cost of service, excluding gas costs, for the test period with the Company's actual gross margin for the same period. Ms. Melson testified that the ARRR calculation for the *2026 ARRM Filing* results in a revenue deficiency of \$6,634,462.¹² In addition to the Company's computed revenue deficiency and its ARRR deficit, Ms. Melson incorporated a \$255,213 credit associated with the amortization of the Company's excess deferred income tax liability ("EDIT"), consistent with methodologies approved in previous Commission dockets. After accounting for these three factors, the Company proposed a total net revenue deficiency of \$14,678,350.¹³ Atmos included tariffs with proposed rates necessary to generate this revenue deficiency.¹⁴

⁹ *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 Stipulation and Settlement Agreement* (July 29, 2024); and, *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* (July 15, 2025).

¹⁰ Maureen H. Melson, Pre-Filed Direct Testimony, p. 3 (January 30, 2026).

¹¹ *Id.* at 3-4.

¹² *Id.*

¹³ *Id.*; *2026 ARRM Filing*, Sched. 1 (January 30, 2026).

¹⁴ *Id.* at 4; *2026 ARRM Filing*, Attach. Proposed Tariff.

Ms. Melson provided individual explanations for each of the Company's 11 schedules included with the *2026 ARRM Filing* and attested that any adjustments reflected in the schedules are consistent with previously approved methodologies. Ms. Melson affirmed that portions of the previously approved ARRR amounts in Docket Nos. 24-00006 and 25-00007 have been removed from Schedule 2 in the Company's computation of its historic period revenues.¹⁵

Ms. Melson testified that Schedules 7 and 7R demonstrate a rate base calculation consistent with approved methodologies. These Schedules were updated to include cloud computing costs in Federal Energy Regulatory Commission ("FERC") accounts consistent with prior-year filings. Ms. Melson stated that, while these cloud computing costs do not affect the 2026 calculations in Tennessee, the Company updated the Schedules to reflect new accounts approved in other jurisdictions. She specifically identified cloud computing costs authorized for capitalization in Mid-Tex Unincorporated Areas, Mid-Tex ATM Cities, West Texas, Kentucky, and Mississippi, and affirmed that no amounts have been allocated to Tennessee in the *2026 ARRM Filing*. Ms. Melson also noted that Atmos is proposing a new accounting treatment for cloud computing costs going forward.¹⁶

Atmos proposed a rate design that will enable it to generate sufficient revenue to recover the proposed total net deficiency. As detailed in the Company's workpaper schedule 11-3, the Company proposed a rate design that increased both the fixed monthly customer charges and the volumetric commodity charges across customer classes and rate schedules.¹⁷

Ms. Melson explained cloud computing services, the tasks for which Atmos uses cloud computing services, and the annual fees associated with the use of these services.¹⁸ She proposed a

¹⁵ *Id.* at 7-8.

¹⁶ *Id.* at 10-11.

¹⁷ *Id.* at 14; *2026 ARRM*, Schedule 11-3 (Confidential) (January 30, 2026).

¹⁸ *Id.* at 15.

modification to the ARRM calculations that capitalizes both implementation and subscription costs associated with cloud-based hardware and software contracts with terms greater than one year to FERC plant account 399.08. She also testified that, as technology has advanced and vendors now offer more cloud computing arrangements (“CCAs”), the Financial Accounting Standards Board (“FASB”) issued two codifications to clarify proper accounting treatment.¹⁹

Ms. Melson asserted that the Company currently records cloud-based implementation costs in “other regulatory asset” accounts, and treats related subscription costs as prepayments that are amortized to Operating and Maintenance (“O&M”) expenses over the lives of the associated agreements. Based on recent changes in industrywide accounting guidance, the Company requests that existing CCA prepaid balances and deferred implementation cost balances at June 1, 2026, be moved to FERC plant account 399.08 and that all future cloud computing costs be capitalized to plant account 399.08. These capitalized amounts of 399.08 would be depreciated at current depreciation rates.²⁰

POSITION OF THE CONSUMER ADVOCATE

The Consumer Advocate filed its *Petition to Intervene* on February 13, 2026. The Administrative Judge granted the Consumer Advocate’s intervention by order entered on February 20, 2026. Following discovery, the Consumer Advocate filed the Pre-Filed Testimonies of Bradley O. Dixon, David N. Dittemore, and Clark D. Kaml on April 10, 2026.

Mr. Dixon testified about Atmos’s Distribution Integrity Management Plan (“DIMP”), including its risk ranking model and associated mitigation actions, and his evaluation of Atmos’s overall construction process. He explained that the DIMP serves as a foundation for the development of the Company’s capital expenditure plans as it provides a risk-based, data-driven framework that

¹⁹ *Id.* at 16.

²⁰ *Id.* at 17-18.

prioritizes pipeline replacement, modernization and maintenance projects. He also stated that he was not fully able to assess the effectiveness of Atmos's DIMP, particularly its risk assessment model, due to a lack of information and time constraints.²¹ He expressed concern regarding the Company's ability to validate the outputs of the risk assessment model in the absence of formal supporting documentation, which he noted raises questions about the reliability of the Company's risk ranking methodology.²² Based upon his review of available information, Mr. Dixon acknowledged that the Company's overall capital expenditure planning process appears reasonable. However, the results of the risk assessment cannot be verified, as the Company did not provide sufficient information regarding the inputs to the model or documentation explaining how the model functions.²³

Further, Mr. Dixon indicated that approximately 60% of annual capital expenditures are undertaken by outside contractors and explained that these projects are monitored by Atmos employees and contract inspectors. Contractors are required to be operator-qualified and to use approved materials that are consistent with general industry practices. In addition, based on his review of capital expenditure trends, customer growth, and business development related to Contributions in Aid of Construction ("CIAC"), Mr. Dixon concluded that the cost of adding new customers appears reasonable, the Company's process for determining value and costs for new development is adequate, and that CIAC is collected appropriately.²⁴ Lastly, based on his review of the 2025 Pipeline and Hazardous Materials Safety Administration ("PHMSA") report, Mr. Dixon noted that several unknown vintage steel service and main lines remain in service. He concluded that the DIMP risk assessment model should be utilized to identify associated threat levels and inform replacement

²¹ Bradley O. Dixon, Pre-Filed Direct Testimony, p. 3 (April 10, 2026).

²² *Id.* at 4-5.

²³ *Id.* at 6-7.

²⁴ *Id.* at 6-8.

decisions, and that the PHMSA report should be used alongside other tools to support a comprehensive system evaluation.²⁵

Mr. Dittmore testified that Atmos seeks a base rate increase of \$14,678,350, or 12.58%, resulting in an average annual increase of \$51.65 per year for residential customers.²⁶ The Consumer Advocate recommended a significantly lower increase of \$7,207,714 as reflected on Schedule CA-1.²⁷ Mr. Dittmore noted that, while Atmos's 2025 ARRM filing reflects only approximately a 1.5% increase, this revenue request builds upon a substantial 19% increase in 2024, which should be considered.²⁸ Mr. Dittmore expressed concern about the cumulative impact of the proposed ARRM increase on customers, alongside the broader trend of rising energy costs that has seen the average residential customer incurring more than \$110 increase over the four-month period ending February 2026.²⁹ Mr. Dittmore further testified that the current ARRM does not provide sufficient incentives for the Company to control costs since the Company is able to recover costs with minimal regulatory lag, noting that the ARRM framework is intended to produce smaller, incremental adjustments. The proposed double-digit increase is inconsistent with this objective and is not in the public interest.³⁰ Although he acknowledged that certain mechanical aspects of the ARRM could be refined to strengthen cost-control incentives, Mr. Dittmore does not recommend specific modifications in this proceeding, with the exception of the treatment of the Company's Allowance for Funds Used During Construction ("AFUDC").³¹

Mr. Dittmore stated that the Company's filing lacks sufficient transparency and adequate support, limiting the Commission's and the Consumer Advocate's ability to fully evaluate the issues

²⁵ *Id.* at 8.

²⁶ David N. Dittmore, Pre-Filed Direct Testimony, p. 4 (April 10, 2026).

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.* at 5.

³⁰ *Id.*

³¹ *Id.* at 6.

in this proceeding.³² While the filing complied with the ARRM's technical requirements by providing detailed schedules and supporting workpapers, Mr. Dittmore noted that Atmos did not sufficiently explain the underlying drivers of the requested increase, whether those drivers are expected to persist, or whether similar impacts may be anticipated in future filings.³³ He asserted that the forward-looking information supporting the requested increase is insufficient and challenged that the Company's assertion that its costs were prudently incurred is not supported by sufficient underlying documents.³⁴

Mr. Dittmore proposed an adjustment to AFUDC and four adjustments to O&M expenses. He supported an increase of \$758,983 in base period AFUDC revenue to eliminate the inappropriate tax implication of AFUDC, as reflected in Schedule CA WP 1-2.³⁵ He explained that AFUDC is not subject to income tax. Therefore, including it in the tax calculation overstates tax expense and leads to overcharging customers. Mr. Dittmore asserted three reasons in support of his recommendation to AFUDC adjustment: 1) AFUDC does not create taxable income; 2) including AFUDC in the income tax calculation would overstate the revenue requirement and overcharge customers by asking them to pay for taxes that the utility will not actually incur; and 3) the ratemaking presentation of AFUDC does not change its underlying character and consequently does not reflect economic reality. Accordingly, he recommends that AFUDC be reflected as its nominal value. Additionally, because this issue was not identified in prior years' filings, corrections to those filings are not required, and no modification to methodology is proposed for the reconciliation period.³⁶

Mr. Dittmore also recommended eliminating \$156,801 in legal expenses from the revenue requirement because the Company failed to provide sufficient documentation supporting the reasonableness and necessity of these expenses. He stated that Atmos failed to provide supporting

³² *Id.*

³³ *Id.*

³⁴ *Id.* at 8-9.

³⁵ *Id.* at 10.

³⁶ *Id.* at 9-12.

invoices in response to Consumer Advocate discovery request No. 2-53, instead submitting only a summary list lacking sufficient details for legal cost validation. He emphasized that the Company did not meet its burden of proof and that unsupported costs should not be recovered from ratepayers.³⁷

In addition, Mr. Dittemore recommended reducing the \$255,059 in injuries and damages expenses because the Company declined to provide sufficient documentation, claiming work product protection from disclosure. He explained that the prudence of these costs cannot be evaluated in the absence of sufficient information and therefore should not be recovered from ratepayers.³⁸

Finally, Mr. Dittemore recommended eliminating approximately \$184,261 in promotional advertising expenses during the reconciliation period. He testified that Commission Rule 1220-04-05-.45 generally prohibits utilities from recovering promotional or political advertising costs from ratepayers.³⁹

Mr. Kaml recommended that the Commission adopt the capital structure and costs of equity approved in its most recent rate case, TPUC Docket No. 14-000146, and use the actual debt costs to compute its revenue requirement. This approach reflects 53.13% equity, 46.87% debt, a cost of long-term debt of 4.15%, and a cost of equity of 9.8%. Mr. Kaml explained that Atmos proposes a cost of capital of 7.57% based on a capital structure with 60.47% equity and 39.53% long-term debt, along with a cost of equity of 9.8% and a cost of debt of 4.15%. Compared to the last rate case, the rate increase for the proposed capital structure is approximately \$4.6 million annually. He asserted that the Company's proposed capital structure is based on the actual equity and long-term debt balance for the period ending September 2025, and the return on equity of 9.8% was approved in prior Commission Docket No. 14-00146.⁴⁰

³⁷ *Id.* at 13-14.

³⁸ *Id.* at 14-15.

³⁹ *Id.* at 15-17.

⁴⁰ Clark D. Kaml, Pre-Filed Direct Testimony, pp. 3-5 (April 10, 2026).

Mr. Kaml testified that the Company's proposed capital structure over-relies on equity, typically the most expensive source of capital, to the benefit of the Company through the reduction of financial risk, but to the disadvantage of ratepayers due to the higher cost of capital. The proposed equity ratio is also inconsistent with industry benchmarks. Mr. Kaml argued that regulated utilities have lower financial risks than many other investments; that the proposed 60% equity level is excessive and does not accurately reflect the risks associated with a regulated utility, and that a more balanced equity-to-debt ratio is typically considered more reasonable. He stated that the proposed equity level exceeds the Value Line Investment Survey average equity ratio for other natural gas utilities of 46%, the equity ratio previously approved by the Commission of 53.13%, and the next highest equity ratio among all other distribution gas utilities of 57.5%.⁴¹

Mr. Kaml asserted that utilities rely too heavily on equity financing to reduce their financial risk, thereby shifting higher costs to customers. He cited recent Commission proceedings and cases in other jurisdictions in which utility regulators have rejected similar high-equity ratios and adjusted them downward to ensure rates remain just and reasonable. He stated that a reasonable equity range for regulated utilities is typically between 45% and 55%.⁴² Mr. Kaml explained that, while the Commission has approved an updated capital structure based on actual equity and debt balances, it did not exclude regulatory review or reasonable adjustments. He references both statutory requirements and prior Commission decisions to confirm that the Commission retains authority to review, question, and modify unreasonable capital structures to protect ratepayers.⁴³ He emphasized that the burden of proof remains with the Company to demonstrate that its proposed costs and rates

⁴¹ *Id.* at 5-7.

⁴² *Id.* at 7-9.

⁴³ *Id.* at 11-17.

are just and reasonable. Mr. Kaml also testified that an excessive level of equity financing is the Company's choice and is not necessary for the provision of safe, reliable service to ratepayers.⁴⁴

With regard to rate design, Mr. Kaml explained that the Commission Order in Docket No. 14-00146 prescribed that any revenue deficiency should be distributed proportionally across customer classes based on existing margins and current rate structures. He noted that although Atmos claims to allocate the revenue increase consistently with Commission-approved methods, it does not directly explain the specific methodology used to apply the recovery or the ratepayer impact. He recommended that the Company be required to include detailed explanations of allocation methodologies in its future filings.⁴⁵

Reiterating Mr. Dittmore's concern, Mr. Kaml emphasized the importance of transparency and prudence in the ARRM filing. He asserted that the ARRM mechanism is not solely intended for timely cost recovery, but also ensures transparency, prudence, and fairness to Tennessee ratepayers. He argued that the Company was uncooperative with regard to discovery requests, objecting to the disclosure of and withholding key information, particularly related to capital investments.⁴⁶ Based on the information provided by the Company, Mr. Kaml asserted that it is difficult to fully confirm that proposed costs are reasonable, prudent, and fair to ratepayers and that this is an ongoing challenge in conducting a meaningful review. Accordingly, he recommended that the Commission encourage enhanced transparency and cooperation in future filings, including directing the Company to provide detailed capital investment plans and additional information supporting its capital investments prior to the next ARRM filing. As an alternative, he recommended that the Commission initiate a thorough

⁴⁴ *Id.* at 18.

⁴⁵ *Id.* at 18-19.

⁴⁶ *Id.* at 21-23.

prudence review of the Company's capital investment projects to ensure that the costs recovered from ratepayers are appropriate and well-supported.⁴⁷

ATMOS'S REBUTTAL TESTIMONY

Atmos filed the Pre-Filed Rebuttal Testimonies of Maureen Melson, Gregory Waller, and Ryan Chastain. Ms. Melson responded to the concerns and proposed filing changes raised by the Consumer Advocate regarding the operation of ARRM, stating that the Consumer Advocate's requests for additional information, including forward-looking budgets, detailed explanations of cost drivers, and annual filings of the DIMP, seek to revisit the scope of the ARRM filings settled in Commission Docket No. 18-00112, which have functioned effectively since then. She asserted that the existing discovery procedures are sufficient to obtain relevant information and that additional filing requirements would not enhance the efficiency of the mechanism.⁴⁸ She also testified that the Consumer Advocate's concerns regarding incentivized imprudent spending or excessive rate increases resulting from the ARRM are hypothetical and unsupported by specific evidence in this filing. Ms. Melson reiterated that, as the Commission recognized in prior proceedings, the ARRM continues to serve the public interest, and the Consumer Advocate has also acknowledged in its discovery report that the ARRM achieves its intended goals of cost savings, rate stability, and broader objectives of alternative ratemaking methods.⁴⁹ She directly addressed the Consumer Advocate's concerns that the ARRM may not be appropriate because it may result in frequent double-digit rate increases, asserting that the concern is unsupported by actual outcomes. Historical ARRM filings reflect a range of outcomes, including modest increases and even rate decreases.⁵⁰ Ms. Melson also disputed the Consumer Advocate's assertion of a lack of transparency, explaining that the Company

⁴⁷ *Id.* at 23-24.

⁴⁸ Maureen H. Melson, Pre-Filed Rebuttal Testimony, pp. 4-5 (May 1, 2026).

⁴⁹ *Id.* at 5-6.

⁵⁰ *Id.*

provided all legally required information and responded to 125 discovery requests in a timely manner, and noting that only 10 requests asserted scope limitations or feasibility constraints.⁵¹ She also argued that the Consumer Advocate's request for additional information in the ARRM filing is not an effective or efficient way to obtain information about the Company's capital investment because some information may only be relevant in certain years. She suggested that, as an alternative, the Company is willing to provide additional information, including project-specific details explaining capital expenditures, through the discovery process in future proceedings, and that the Consumer Advocate could request capital expenditure budgets and capital additions budgets in future filings to better understand the Company's capital planning process.⁵² She further stated that while forward-looking information is no longer required after changes to the methodology approved in Docket No. 18-00112, the Company is willing to provide such information through the discovery process going forward. She also stated that the Company will resume a separate filing in accordance with Commission Rule 1220-04-01-.01, which should include most of the forward-looking information requested by the Consumer Advocate.⁵³ Ms. Melson concluded that the ARRM continues to function as intended and serves the public interest, and that no modification to the ARRM or its approved methodologies is necessary, while acknowledging the Consumer Advocate's concern about incorporating prudence review into the ARRM process.⁵⁴

Ms. Melson accepted the Consumer Advocate's proposed adjustment to reduce advertising expenses by \$184,261 and partially agreed with Mr. Dittmore's adjustment to AFUDC revenue of \$758,983, representing the tax-related portion of AFUDC recorded in the CWIP calculation. However, she disagreed with other proposed adjustments, including those related to legal expenses,

⁵¹ *Id.* at 7.

⁵² *Id.* at 8-9.

⁵³ *Id.* at 10.

⁵⁴ *Id.* at 10-11.

injuries and damage costs, and capital structure. After incorporating the accepted adjustments, the revised revenue deficiency is \$14,281,594, representing a decrease of \$396,755 from the Company's original request.⁵⁵

Mr. Waller disagreed with Mr. Kaml's recommendation to use a hypothetical capital structure of 53.13% equity and 46.87% debt, arguing that the proposal is contrary to the approved methodologies governing the ARRM and would prevent the Company from earning its authorized return. He noted that the approved methodologies explicitly require the Company's "actual equity balance at the end of each historic base period" to be used in the ratemaking calculation since the inception of ARRM, and that the Commission has consistently implemented the Company's actual capital structure in prior ARRM proceedings. He stated that the Company's current 60.47% equity level is lower than the levels approved in each of the past four years, demonstrating that the currently requested equity ratio is within the Commission-approved range.⁵⁶ Mr. Waller asserted that Atmos's actual capital structure is reasonable and prudent because it supports financial flexibility, maintains credit quality, and enables the Company to access funding on reasonable terms. Further, Mr. Waller asserted that a complete review of capital structures approved in other jurisdictions, rather than the partial review conducted by the Consumer Advocate, demonstrates that the Company's capital structure falls within a normal and reasonable range compared to other approved utility capital structures.⁵⁷

Mr. Chastain responded to Mr. Dixon's recommendation to include Atmos's DIMP as part of the annual ARRM process, asserting that the requirement would be unnecessary, impractical, and unhelpful in evaluating the Company's capital structure. He emphasized that Atmos supports transparency and has cooperated with extensive discovery requests in this docket, but that DIMP is

⁵⁵ *Id.* at 11-12.

⁵⁶ Gregory K. Waller, Pre-Filed Rebuttal Testimony, pp. 4-8 (May 1, 2026).

⁵⁷ *Id.* at 4-6.

not the appropriate tool for reviewing capital spending decisions. He provided three reasons opposing annual DIMP filings: 1) DIMP outputs are generated in multiple formats across several internal software systems and environments, making annual DIMP review difficult and impractical; 2) Since DIMP is intended to evaluate overall system risk and mitigation strategies rather than directly explain capital expenditure decisions, the annual DIMP review would not provide meaningful insight into project selection or capital budgeting decisions; and 3) DIMP is regularly audited by the Commission's Gas Pipeline Safety Division. Mr. Chastain further explained that Atmos is willing to provide detailed project-specific capital expenditure information through discovery and argued that such project-level review is more efficient and effective for evaluating the Company's capital expenditure decisions. In addition, his testimony addressed Mr. Dixon's concerns about "System Integrity and Maintenance" spending, asserting that the Company's focus on maintaining system integrity is necessary to provide safe and reliable service to its customers.⁵⁸

SETTLEMENT AGREEMENT

The Parties filed the *Settlement Agreement* on May 12, 2026. In the *Settlement Agreement*, the Parties agreed to reduce the Company's originally requested net revenue deficiency of \$14,678,350 by \$2,817,292, resulting in a revised net revenue deficiency of \$11,861,058. The *Settlement Agreement* includes negotiated adjustments, listed below, which are responsible for this \$2,817,292 reduction.⁵⁹

1. *Rate Base and AFUDC*: The Company agreed to remove AFUDC-eligible CWIP and any corresponding Accumulated Deferred Income Taxes ("ADIT") from its rate base and to eliminate its AFUDC revenue credit adjustment, as computed on Workpaper 1-2 and included on Schedule 1. CWIP that is not AFUDC-eligible will remain

⁵⁸ Ryan A. Chastain, Pre-Filed Rebuttal Testimony, pp. 4-6 (May 1, 2026).

⁵⁹ *Settlement Agreement*, p. 2 (May 12, 2026).

in rate base. Notably, these adjustments will not affect the Company's ARRR as per its Schedule 1R for this year's filing. The Company agreed to file testimony in next year's ARRM filing to propose this amended methodology. Further, the Parties acknowledged that many of the Company's AFUDC-related accounting conventions remain unresolved and agreed to address them in next year's ARRM filing. As part of this issue, the Company agreed to support its accounting methodology, which computes AFUDC on a pre-tax basis, via testimony in future ARRM filings.⁶⁰

2. *Capital Additions Budget*: The Company agreed to provide its capital additions budget, pursuant to Commission Rule 1220-04-01-.01, to the Commission and the Consumer Advocate in future ARRM filings.⁶¹

3. *Testimony Concerning Capital Expenditures and Operating Expense*: Atmos agreed to provide the drivers for its year-to-year changes in capital and operating expenditures that are identified as high-risk and/or high-priority in its future ARRM filings. Further, the Company agreed to submit its capital project list, including cost, underlying need, the selection method, and customer benefit(s) by project in future ARRM filings.⁶²

4. *Risk Prioritization and DIMP*: For the project list noted above, the Company agreed to indicate which projects were identified using the risk prioritization model for distribution facility replacements, their respective risk tier, and the risks that will be mitigated. Further, in future ARRM filings, the Company agreed to provide the most recent DIMP risk results by grid, and that it will highlight or cooperate in the discovery process to provide information on any capital or operational measures or projects

⁶⁰ *Id.* at 2-3.

⁶¹ *Id.* at 3.

⁶² *Id.*

identified in DIMP risk results that were not incorporated or undertaken, including the reasons why associated risks were not addressed or projects undertaken.⁶³

5. *Consumer Advocate Engagement*: The Company agreed to engage early with the Consumer Advocate to identify information needs and streamline discovery requests.

6. *Legal Fees and Invoices*: For purposes of settling this matter, the Parties agreed to allow the Company to recover all legal fees included in this filing. Further, upon request, the Company agreed to provide confidential invoices to the Consumer Advocate that support its claimed legal expenses with minimal redactions.⁶⁴

7. *Injuries and Damages Adjustment*: For purposes of settling this matter, the Company agreed to forgo \$255,059 for injuries and damages included in this filing. Further, if requested, the Company agreed to provide reasonable supporting information related to larger injury claims, including a narrative summary, in its future ARRM filings.⁶⁵

8. *Advertising*: The Parties agreed to a \$184,261 advertising reduction in operating expenses.⁶⁶

9. *Cloud Computing*: The Parties stipulated that the Company may capitalize certain cloud computing costs as proposed in Ms. Melson's testimony.⁶⁷

10. *Capital Structure*: For purposes of this filing, the Parties agreed to allow the Company to use its actual capital structure, with its common equity ratio not to exceed 58%. The Company agreed to file testimony in next year's ARRM proceeding that proposes this amended methodology be made permanent.⁶⁸

⁶³ *Id.* at 3-4.

⁶⁴ *Id.* at 4.

⁶⁵ *Id.* at 5.

⁶⁶ *Id.*

⁶⁷ *Id.*; Maureen H. Melson, Pre-Filed Direct Testimony, pp. 10-11, 15-19 (January 30, 2026).

⁶⁸ *Id.*

THE HEARING

The hearing on the merits was publicly noticed by the Commission on May 22, 2026, and held during the regularly scheduled Commission Conference on June 1, 2026. Appearances were made by the following:

Atmos Energy Corporation. – Erik Lybeck Esq., Sims & Funk, PLC, 3102 West End Ave., Suite 1100, Nashville, Tennessee; Maureen H. Melson, Manager of Rates and Regulatory Affairs.

Consumer Advocate Division – Shilina B. Brown, Esq., Ryan McGehee, Esq., P.O. Box 20207, Nashville, Tennessee, 37219.

The panel heard testimony by Ms. Maureen Melson concerning the *Settlement Agreement*. Ms. Melson summarized the *Settlement Agreement* and was subject to questions from the panel and Commission Staff. Members of the public were given an opportunity to offer comments, but no one sought recognition to do so.

FINDINGS AND CONCLUSIONS

Upon review of the record in its entirety, the panel made findings and conclusions consistent with the provisions of the *Settlement Agreement* and voted unanimously to approve the *Settlement Agreement* filed by the Parties on May 12, 2026. In the *Settlement Agreement*, the Parties agreed to a net revenue deficiency of \$11,861,058 to be recovered by Atmos through fixed and volumetric rates. The panel found that the agreement for Atmos to remove its AFUDC-eligible CWIP and associated ADIT from its rate base and to eliminate its AFUDC-related revenue credit from its required revenue reset calculations is reasonable and ordered the Company to incorporate these changes. In addition, the panel directed Atmos to propose these adjustments as permanent, with application to both historical review and reset periods, in its next ARRM filing. In support of these adjustments, the panel ordered Atmos to file direct testimony supporting its AFUDC accounting

procedures, including its pre-tax accruals, with the understanding that AFUDC-related accounting issues remain unresolved and will be addressed in the Company's 2027 ARRM filing.

Consistent with the *Settlement Agreement*, the panel also ordered the Company to provide its capital project list, which should include cost, underlying need, approval method, and customer benefit(s) by project, in future ARRM filings, as well as its capital additions budget in accordance with Commission Rule 1220-04-01-.01. This capital projects list shall also address the projects' respective risk tiers and their mitigated risks. In future ARRM filings, the panel directed Atmos to provide its DIMP risk results by grid and highlight any risks that were not addressed.

In addition, Atmos was ordered to include in all future ARRM filings, testimony and evidentiary support that discusses the drivers for year-to-year changes in its capital and operating expenditures that are identified as high-risk and/or high-priority, and information on DIMP-related risk prioritization and management, including information on measures or projects not undertaken, in future ARRM filings. The panel found that the Parties' efforts to increase transparency in the Company's ARRM filing is beneficial to the evaluation of the annual filing and unanimously approved the Parties' agreement concerning capital expenditures, planned capital additions, and decisions for addressing facility risks.

Further, Atmos and the Consumer Advocate agreed to strengthen early and ongoing engagement in future ARRM filings to reduce discovery disputes, improve the quality of information exchanged, and support a more efficient and transparent review process. The *Settlement Agreement* requires Atmos to proactively identify and provide key materials at the outset of each filing cycle, including clearer explanations of cost drivers, capital project documentation, and other information that has historically required extensive follow-up requests. The Consumer Advocate commits to working collaboratively with Atmos to define information needs in advance and address questions before they escalate into procedural conflicts. The panel found that this enhanced

collaborative approach is likely to streamline the ARRM review timeline, reduce unnecessary delays, and ensure that both Parties have the information needed to thoroughly evaluate filings. In addition, this approach will promote transparency and help the Commission make well-informed decisions on future ARRM filings. Therefore, the panel directed the Parties to proactively engage in anticipation of and during the Company's future ARRM filings to streamline the review timeline, reduce unnecessary delays, and ensure that each Party has the requisite information for a thorough analysis.

The panel also found that the Parties' agreement to permit Atmos to recover its legal expenses as proposed is reasonable. Therefore, the panel approved the agreed-upon recovery of legal expenses and ordered that, upon request in future ARRM filings, Atmos shall provide the Consumer Advocate all invoices, including confidential, and other supporting evidence associated with legal expenses, with minimal redactions.

The panel also found that excluding \$255,059 from injuries and damages expenses and \$184,261 in promotional expenses is reasonable. Therefore, the panel excluded these expenses and directed Atmos to provide reasonable documentation including narrative explanations for these types of expenses, in future ARRM filings.

With regard to the accounting change concerning cloud computing costs, the panel found that the Parties' agreement that Atmos will capitalize certain cloud computing costs, as outlined in Ms. Melson's testimony, is consistent with established accounting guidance, has no effect on the current revenue requirement, and provides additional transparency and consistency for future ARRM filings. Therefore, the panel ordered that, beginning with its next ARRM filing, Atmos shall be permitted to account for its cloud computing services and solutions costs by charging both implementation and subscription costs to the FERC application software plant account and subsequently depreciate these costs at existing depreciation rates.

The panel found that the capital structure proposed in the *Settlement Agreement*, which includes a cap on the equity ratio and a resulting decline in the overall cost of capital, falls within the zone of reasonableness consistent with the Parties' respective positions. The *Settlement Agreement* also requires Atmos to propose, in next year's ARRM filing, a permanent amendment to the approved methodologies to reflect the cap on the equity ratio. The panel found the Parties' agreement concerning capital structure to be reasonable and ordered that the Company shall use its actual capital structure, with its common equity ratio not to exceed 58%, and that Atmos shall propose that this amended methodology be made permanent in its next ARRM filing.

The Parties' proposed rate design allocates the revenue deficiency proportionately among customer classes and further distributes it through both fixed and volumetric rate components, while preserving the existing fixed/volumetric revenue ratio within each class. The panel found this approach to be consistent with prior Commission-approved methodologies and previous Commission decisions. In addition, the panel found that this approach balances the interests of the Company and its customers, providing the Company with a degree of revenue stabilization through fixed charge adjustments, and customer flexibility in bill management through usage adjustments to volumetric charges. Accordingly, the panel concluded that the proposed rate design is just and reasonable and unanimously approved it.

Finally, the panel found that this ARRM continues to be in the public interest by allowing Atmos timely recovery of reasonable and prudently incurred expenditures for the provision of safe and reliable natural gas services to its customers, while also limiting the need for more costly rate cases. Therefore, the panel voted unanimously to approve the Parties' *Settlement Agreement*.

IT IS THEREFORE ORDERED THAT:

1. The *Stipulation and Settlement Agreement* filed by Atmos Energy Corporation and the Consumer Advocate Division of the Tennessee Attorney General and Reporter on May 5, 2026, is approved.

2. For future Annual Rate Review Mechanism Filings, Atmos Energy Corporation shall:

a. In its 2027 Annual Rate Review Mechanism Filing, propose that the amendments to remove its Allowance for Funds Used During Construction-eligible Construction Work-in-Progress amount and any associated Accumulated Deferred Income Taxes from its rate base, and to eliminate its Allowance for Funds Used During Construction-related revenue credits from its reset revenue calculations reflected in the *Stipulation and Settlement Agreement* be made permanent and apply to both the historical review and reset periods. Atmos Energy Corporation shall file direct testimony supporting its Allowance for Funds Used During Construction accounting procedures, including its pre-tax accruals, with the understanding that Allowance for Funds Used During Construction-related accounting issues remain unresolved and will be addressed in the Company's 2027 Annual Rate Review Mechanism Filing.

b. Provide its capital additions budget in accordance with Commission Rule 1220-04-01-.01 to the Commission and the Consumer Advocate Division of the Office of the Tennessee Attorney General.

c. Discuss the drivers for its year-to-year changes in capital and operating expenditures that are identified as high-risk and/or high-priority and shall submit its capital

projects list to include cost, underlying need, selection method, and customer benefit(s) by project.

d. With regard to the projects included on its capital projects list, address projects' respective risk tiers and their mitigated risks, and shall provide its Distribution Integrity Management Program risk results by grid and highlight any risks that were not addressed.

e. When requested, provide to the Consumer Advocate Division of the Office of the Tennessee Attorney General all confidential legal expense-associated invoices and other supporting evidence with minimal redactions.

f. Supply reasonable documentation that includes narrative explanations to support injuries and damages expenses and promotional expenses.

g. Be permitted to account for its cloud computing services and solutions costs by charging both implementation and subscription costs to the Federal Energy Regulatory Commission application software plant account and subsequently depreciate these costs at existing depreciation rates.

h. In its 2027 Annual Rate Review Mechanism Filing, propose that the agreed amendment to the methodology that allows Atmos Energy Corporation to be able to use its actual capital structure with its common equity ratio not to exceed 58%, as reflected in the *Stipulation and Settlement Agreement* be made permanent.

3. Atmos Energy Corporation shall file revised tariff sheets consistent with the terms of the *Stipulation and Settlement Agreement*.

4. Any person aggrieved by the Commission's decision in this matter may file a Petition for Reconsideration with the Commission within 15 days from the date of this Order.

5. Any person aggrieved by the Commission's decision in this matter has the right to judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within 60 days from the date of this Order.

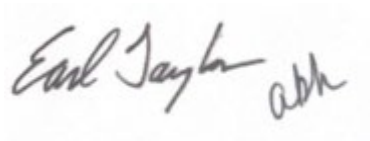
FOR THE TENNESSEE PUBLIC UTILITY COMMISSION

Commission Panel Vote

The Commission panel has adopted the foregoing order.
All members present and voting concurred; none dissented.

Vice Chairman John A. Hie
Commissioner Robin L. Morrison
Commissioner Clay R. Good
Commissioner Kenneth C. Hill
Commissioner David Crowell

Order Issued and Attested By:

A handwritten signature in dark ink, appearing to read "Earl Taylor" with a stylized flourish or initials "abh" at the end.

Earl R. Taylor, Executive Director