

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-01
Page 1 of 2

Electronically Filed in TPUC Docket
Room on April 17, 2026 at 1:52 p.m.

REQUEST:

Refer to Excel file 2026 Atmos Energy TN ARM Filing - Revenue Requirements Schedules.xls, Schedule 7. Provide a comprehensive 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 description of and the benefits accruing to customers for the underlying capital investments.

- a. Gross Cost of Plant (UPIS), \$99 million (10.4%) increase vs. PY filing
- b. Construction Work in Process (CWIP), \$1.2 million (3.4%) increase vs. PY filing

RESPONSE:

- a. The combined \$100 million increase in direct and allocated Gross Plant and CWIP to Tennessee in the filing is driven by over \$103 million of capital spending within the Company's Tennessee Division (Div 093) net of asset retirements and other adjustments.

Growth	\$21.9 MM
Public Improvements	\$14.3 MM
System Improvements	\$7.0 MM
System Integrity	\$60.3 MM
	<u>\$103.5 MM</u>

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 Fiscal 2024.

Nearly \$8MM in test year capital spending is due to the Thompson Lane project as well as \$1MM for the ongoing SR 99 highway widening project, both in Murfreesboro, Tennessee. Another major TDOT widening project is in East Tennessee with SR 126 for \$1.4MM. 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.

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-01
Page 2 of 2

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 few TDOT relocation projects mentioned above. As the Company's service areas continue to experience this 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 additional spending on the SR 99 highway widening project in Murfreesboro, TN for TDOT, with another \$1MM in test year spend, and a total of \$13MM in CWIP. This project is not anticipated to close until 2027 and has already been delayed several times due to TDOT delays outside of the Company's control.

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-02
Page 1 of 1

REQUEST:

Refer to Excel file 2026 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 description of and the benefits accruing to customers for the underlying capital investments.

- a. Gross Cost of Plant (UPIS), \$81.5 million (9.0%) increase vs. PY filing
- b. Construction Work in Process (CWIP), \$14.4 million (58.1%) 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.

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-03
Page 1 of 2

REQUEST:

Provide a thorough analysis of any new or incremental revenue generated by the noticeable growth in rate base 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 6 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. Key increases were from Ultium and Microporous (EV battery industries) and Howmet (Aerospace products).

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 approximately 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 eight years the Company has added approximately 3,100 new customers annually, representing approximately \$1.19MM 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. The Company spent approximately \$9.9M on service line growth in TN (See attachment to Supplemental DR 1-28) and \$6.5M net of AIC in mains growth (See attachment to DR 1-29). Many of the Company's investments are related to expanding residential areas within its service territory and the infrastructure associated with new developments.

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-03
Page 2 of 2

ATTACHMENTS:

Staff_1-03_Att1- FY25 TN Growth by Project (CONFIDENTIAL).xlsx
Staff_1-03_Att2 - TN FY2025 Growth Model - Masengill Landing (CONFIDENTIAL).xlsx
Staff_1-03_Att3 - TN FY2023 Growth Model - McFarlin Property (CONFIDENTIAL).xlsx
Staff_1-03_Att4 - TN FY2024 Growth Model - Northridge (CONFIDENTIAL).xlsx
Staff_1-03_Att5 - TN FY2023 Growth Model - Poplar Farms (CONFIDENTIAL).xlsx
Staff_1-03_Att6 - TN FY2024 Growth Model - McClure Farms (CONFIDENTIAL).xlsx

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-04
Page 1 of 1

REQUEST:

Refer to Excel file 2026 Atmos Energy TN ARM Filing - Variances Report.xlsx, worksheet '093 O&M Acct.' Provide additional explanation for the significant 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 specific driver(s) for the increase, along with proper justification of Atmos' need for the increased expenditures.

- a. Mains expenses, account 8560: Explain the year-to-year variability and the significant increases in 2023 and 2025.
- b. Mains and services expenses, account 8740: Explain the significant 3-year growth since 2022 and the significant growth during 2025.
- c. Injuries & damages, account 9250: Why are settlements growing so much over the last 3-year period and especially during 2025?

RESPONSE:

- a. The primary driver is contract labor Sub Account 06111 for Direct Pipeline Assessments in Tennessee required by PHMSA regulations as defined in 49 CFR 192.923. A contributor to the increased cost in fiscal year 2025 was the regulatory requirement to assess pipeline segments outside of high consequence areas as was added in § 192.710 as part of the "Gas Mega Rule" finalized by PHMSA on October 1, 2019. This necessitated an increase in the mileage of transmission pipeline that must be assessed, which increases the costs. The requirements of these regulations is cyclical in nature, and Atmos Energy's typical cycle is to complete the next assessment within seven years.
- b. The primary driver is company labor as the Company have hired new employees from Fiscal Year 2022 to Fiscal Year 2025 consisting mainly of Service Technicians, Construction Operators, Engineers, and Damage Prevention Technicians. Contract labor Sub Account 06111 is higher mainly due to the increase in line locating tickets and costs. Vehicle Expense is also up considerably as the Company had an influx of repairs due to aging vehicles as there were supply chain delays in obtaining new vehicles. The Company has been replacing them with new vehicles over the last year.
- c. The primary driver is for vehicle settlements that occurred in Fiscal Year 2024 and Fiscal Year 2025. In Fiscal Year 2024, a vehicle accident resulted in a \$34k settlement and in Fiscal Year 2025 there were two vehicle accidents that resulted in a \$250k settlement and a \$45k settlement.

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-05
Page 1 of 1

REQUEST:

Refer to Excel file 2026 Atmos Energy TN ARM Filing - Variances Report.xlsx, worksheet '093 O&M Sub Acct.' Provide additional explanation for the significant 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 specific driver(s) for the increase, along with proper justification of Atmos' need for the increased expenditures.

- a. Building maintenance, sub-account 04582: Explain the significant 3-year growth since 2022 and the significant growth during 2025.
- b. Transportation, sub-account 05413: Explain the significant 3-year growth since 2022 and the significant growth during 2025. COVID recovery is cited, but, since it has been 5 years since 2020, what other factors are at play in the large increases?
- c. Bill print fees, sub-account 06116: What specifically is driving the significant 3-year growth since 2022 and the significant growth during 2025?

RESPONSE:

- a. The primary driver from fiscal year 2022 to fiscal year 2025 is overall cost increases in normal building maintenance such as cleanings, trash removal, etc. However, in fiscal year 2025, the Murfreesboro, Tennessee office had to have mold remediation work completed of \$44k as well as construction costs to repair the affected areas of \$54k.
- b. The primary driver is indeed the resumption of activity since COVID. While the field activities like service and construction ramped back up slowly from fiscal year 2020, the Company chose to limit most administrative travel activities through September 2022, when normal activities were then resumed across the organization.
- c. The bill print fees were impacted primarily by three items which are vendor pricing at contract renewal, USPS postage price increases and consumables (paper for bills, letters and envelopes).

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-06
Page 1 of 1

REQUEST:

Refer to Excel file 2026 Atmos Energy TN ARM Filing - Variances Report.xlsx, worksheet '091 O&M Acct.' Provide additional explanation for the significant increase in each of the following allocated expenses. For each expense and its related year-to-year increase listed below, provide a discussion of the specific driver(s) for the increase, along with proper justification for the increased allocations.

- a. Distribution-other expenses, account 8800: Provide more detail and explanation for the large increase in these expenses during 2025.
- b. Injuries & damages, account 9250: Why are workers compensation expenses growing so much over the last 3-year period and especially during 2025?

RESPONSE:

- a. The primary driver for the increase in Account 8800 "Distribution-other expenses" is related to additional spending on updating historical records/mapping. The Company has made a concentrated effort in Fiscal Year 2025 to update the GIS with legacy service line records, which is a fundamental activity for addressing and reducing relative risk on the system.
- b. The number of worker compensation claims in the Kentucky/Mid-States Division remained unchanged in fiscal year 2022 and fiscal year 2025 at nineteen. However, there was an increase in the cost of claims, primarily due to a high cost claim in May 2025, which is causing the higher fiscal 2025 amount.

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-07
Page 1 of 1

REQUEST:

Refer to Excel file 2026 Atmos Energy TN ARM Filing - Variances Report.xlsx, worksheet '091 O&M Sub Acct.' Provide a more thorough explanation for the 3-year and most recent increases in sub-account 06111, Contract labor. This account increased significantly since 2022 and 2025 experienced another large increase. Provide a thorough discussion of the driver(s) for these increased allocations.

RESPONSE:

The primary driver for the 3-year and most recent increases in sub-account 06111 "Contract labor" is related to contractor labor spending on updating historical records/mapping. The Company has made a concentrated effort in the last few years to update the GIS with legacy service line records with the largest effort in Fiscal Year 2025. Multiple contractors Harvey Nash, Matrix Resources Inc., and We Do It Inc. are used to perform this work, allowing our company employees in our GIS department to keep up with the current mapping efforts.

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-08
Page 1 of 1

REQUEST:

Refer to Excel file 2026 Atmos Energy TN ARM Filing - Variances Report.xlsx, worksheet '002 O&M Sub Acct.' Provide a more thorough explanation for the 3-year and most recent increases in sub-account 06111, Contract labor. This account increased significantly since 2022 and 2025 experienced another large increase. Provide a thorough discussion of the driver(s) associated with these increased allocations.

RESPONSE:

For the 3-year period, the largest increase was in Cost Center 1105-Audit for external and internal audit fees. The next largest increases were in information technology Cost Center 1164-IT Security and Cost Center 1135-IT Engineering and Corporate Systems. The increase in Cost Center 1164 is primarily related to incremental costs associated with cybersecurity measures and policies and procedures development. The increase in Cost Center 1165 is associated with the implementation of the Anaplan budgeting and planning system and contractor costs related to the mapping of service lines.

For the year-over-year period, the largest increase was in Cost Center 1105-Audit for external and internal audit fees of \$1.1 million before allocations, which accounts for nearly half of the Div 002 contract labor increase. The increases were primarily due to an increase in audit rates for the integrated audit as well as additional testing required due to new technology implementations and consultations that contained significant audit impacts.

Docket No. 26-00009
Atmos Energy Corporation, Tennessee Division
Staff DR Set No. 1
Question No. 1-09
Page 1 of 1

REQUEST:

Refer to Excel file 2026 Atmos Energy TN ARM Filing - Variances Report.xlsx, worksheet '012 O&M Acct.' Provide a more thorough explanation for the 3-year and most recent increases in account 9200, Administrative & general salaries. This account increased significantly since 2022 and 2025 experienced another large increase. Provide a thorough discussion of the driver(s) for these allocation increases.

RESPONSE:

The increase over the 3-year period in Account 9200 for Div 012 is driven primarily by an increase in employee headcount. At September 2022, Div 12 headcount was 642 increasing to 712 at September 2025 leading to an increase in labor expense. Annual merit increases effective October 1st of each year and a company-wide increase in June 2024 also contribute to the higher labor expense. Additionally, a change in labor coding from Account 9030 to Account 9200 for some Div 012 employees occurred shifting some historic 9030 costs to 9200.

The year-over-year increase in Account 9200 is partially due to a change in labor coding from Account 9030 to Account 9200 for some Div 012 employees. Before allocations, the Div 012 account 9030-01000 labor expense account decreased \$2.2 million while the account 9200-01000 labor expense increased \$5.8 million for a net change of \$3.6 million. There was also a decrease in labor expense account 9010-01000 for Div 012.

The Div 012 employee headcount at September 2024 was 689 which increased to 712 at September 2025 which also contributed to the labor increase. The annual merit increase described above is another reason for the higher labor expense in fiscal 2025.

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))

VERIFICATION

STATE OF TEXAS)
COUNTY OF DALLAS)

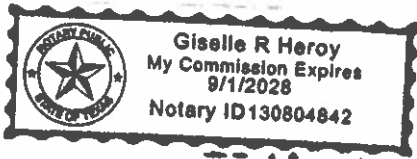
I, Maureen H. Melson, being first duly sworn, state that I am the Manager of Rates and Regulatory Affairs for Atmos Energy Corporation, that I am authorized to testify on behalf of Atmos Energy Corporation in the above referenced docket, and the responses to the Commission Staff's first set of discovery requests are true and correct to the best of my knowledge, information and belief.

Maureen H. Melson
Maureen H. Melson

Sworn and subscribed before me this 16th day of April, 2026.

[Signature]
Notary Public

My Commission Expires: September 1, 2028



CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing Responses to Commission Staff's First Set of Discovery Requests has been served by electronic mail on this 17th day of April, 2026, upon the following:

Michelle Mairs
Craig Cox
Commission Staff

Shilina B. Brown
Vance L. Broemel
Office of the Tennessee Attorney General
Consumer Advocate Division

/s/ Erik C. Lybeck
