

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION)
OF ATMOS ENERGY CORPORATION) Docket No.
FOR REVIEW AND ADJUSTMENT OF ITS) 19-ATMG- 525-RTS
NATURAL GAS RATES)

DIRECT TESTIMONY OF GARY L. SMITH

1 I. **INTRODUCTION**

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

3 A. My name is Gary L. Smith. My business address is 5420 LBJ Freeway, Suite 1600,
4 Dallas, Texas 75240.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I serve as Director of Rates and Regulatory Affairs for Atmos Energy Corporation
7 (“Atmos Energy” or the “Company”).

8 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES AS**
9 **DIRECTOR OF RATES AND REGULATORY AFFAIRS AND YOUR**
10 **PROFESSIONAL AND EDUCATIONAL BACKGROUND.**

11 A. In this role, I am responsible for leading and directing the rates and regulatory
12 activities in Atmos Energy’s eight-state service area. I am responsible for planning
13 and implementing strategies to assure that the Company’s tariffs and services are
14 meeting the goals and balancing the interests of our customers, regulators and
15 shareholders.

16 Previously, I served as the Company’s Director of Customer Revenue
17 Management in Dallas. Prior to that, through May 2007, I served several years as

1 Vice President-Marketing and Regulatory Affairs for the Company's
2 Kentucky/Mid-States operations, where I was responsible for rates and regulatory
3 affairs, as well as for directing the marketing plans and strategies for natural gas
4 utility markets in that division.

5 I have been active in numerous civic and community organizations and
6 associations relating to the natural gas industry. I have served as chairman of the
7 Utilization Technology Development, NFP Corporation and as chair of the Strategic
8 Marketing Committee for the American Gas Association.

9 I am a 1983 graduate of the University of Kentucky, with a Bachelor of
10 Science degree in Civil Engineering. I have worked for Atmos Energy or its
11 predecessor, Western Kentucky Gas Company, since 1984.

12 **Q. HAVE YOU EVER SUBMITTED TESTIMONY BEFORE THE STATE**
13 **CORPORATION COMMISSION OF THE STATE OF KANSAS (THE**
14 **“COMMISSION”)?**

15 A. Yes. I was a witness for the Company in Commission Docket Nos. 08-ATMG-280-
16 RTS, 12-ATMG-564-RTS, 16-ATMG-079-RTS, and 15-GIMG-343-GIG.

17 **Q. HAVE YOU TESTIFIED ON MATTERS BEFORE OTHER STATE**
18 **REGULATORY COMMISSIONS?**

19 A. Yes, I have testified in dockets involving Atmos Energy before the Kentucky Public
20 Service Commission, the Georgia Public Service Commission, the Missouri Public
21 Service Commission, the Tennessee Regulatory Authority (now the Tennessee
22 Public Utilities Commission) and the Railroad Commission of Texas.

1 **II. PURPOSE OF TESTIMONY**

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

3 A. The purpose of my testimony is to describe and support the Company's proposed
4 System Integrity Program ("SIP") tariff, billing determinants, and to provide an
5 update on effects of changes in transportation service qualifications resulting from
6 16-ATMG-079-RTS (the "079 Docket"). The SIP tariff is proposed to address
7 additional capital investments required to accelerate the pace of replacement of
8 obsolete materials in Atmos Energy's Kansas distribution system. I also discuss
9 the development of Atmos Energy Kansas billing determinants and the revenues
10 resulting from the billing determinants using both the present and the proposed
11 rates. In addition, I support the Company's proposed Schedules IV, VIII, IX and X
12 tariffs. These tariffs are included in the Company's filing in Section 18.

13 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?**

14 A. Yes. I sponsor Exhibits GLS-1 and GLS-2. Exhibit GLS-1 is the System Integrity
15 Program in Schedule X of the Company's proposed tariffs. Exhibit GLS-2
16 compares the capital investment lag, in months, for the proposed SIP to other
17 periodic rate adjustments employed in other Atmos Energy jurisdictions.

18 **III. SAFETY-RELATED CAPITAL INVESTMENT AND RATE RECOVERY**

19 **Q. BRIEFLY DESCRIBE THE BACKGROUND OF SAFETY-RELATED**
20 **INVESTMENTS THROUGHOUT ATMOS ENERGY.**

21 A. Early in this decade, as a result of catastrophic incidents on natural gas systems, a
22 Call to Action was issued by United States Secretary of Transportation Ray
23 LaHood, seeking to engage state regulators, technical experts and pipeline

1 operators in identifying pipeline risks and repairing, rehabilitating and replacing the
2 highest risk infrastructure. Please refer to the testimonies of Gary Gregory and Bart
3 Armstrong for more information on the evolution of these safety initiatives.
4 Further, the National Association of Regulatory Utility Commissioners
5 (“NARUC”) issued a resolution in 2013 encouraging state commissions to
6 “consider adopting alternative rate recovery mechanisms as necessary to accelerate
7 the modernization, replacement and expansion of the nation’s natural gas pipeline
8 systems.”

9 Since that time, the Company has worked effectively with its regulators to
10 make great strides in its pace of replacing aging infrastructure. Because this effort
11 requires significant levels of incremental capital investment beyond what normal
12 system growth and maintenance would require, creative solutions to address capital
13 investment lag must be utilized in addressing the replacement of aging
14 infrastructure in a financially sustainable manner. NARUC recognized this
15 connection in its encouragement of appropriate rate recovery mechanisms to
16 facilitate modernization and replacement of the nation’s aging natural gas pipeline
17 systems. Nearly every state has since adopted one or more forms of such
18 mechanisms.

19 **Q. WHAT HAS BEEN THE IMPACT OF THE INCREASED CAPITAL**
20 **INVESTMENT ON RATEMAKING?**

21 A. The Company’s emphasis on safety and increased levels of capital investment for
22 infrastructure replacement extends to all of the eight states in which Atmos Energy
23 operates. As a consequence of increased capital investment in infrastructure

1 replacement, each of these jurisdictions has experienced an increase in the
2 frequency of rate adjustments. In order to overcome the need for frequent, litigious
3 and expensive general rate cases, many regulatory jurisdictions have implemented
4 one or more of an array of new capital trackers, annual rate review tariffs and other
5 innovative ratemaking processes to facilitate these new incremental levels of capital
6 investment in system integrity.

7 **Q. PLEASE PROVIDE AN OVERVIEW OF THE MECHANISMS**
8 **CURRENTLY IN EFFECT IN ATMOS ENERGY JURISDICTIONS WHICH**
9 **LESSEN THE FREQUENCY OF COMPREHENSIVE RATE CASES.**

10 A. Exhibit GLS-2 summarizes the key rate mechanisms currently employed in each
11 Atmos Energy jurisdiction. Column (a) shows the numerous areas currently
12 operating under a comprehensive annual rate review process. Column (b) shows
13 the capital investment lag experienced with each of these annual mechanisms.

14 **Q. FOR PURPOSES OF EXHIBIT GLS-2, PLEASE DEFINE WHAT IS**
15 **MEANT BY “CAPITAL INVESTMENT LAG”.**

16 A. Capital investment lag represents the average number of months between the time
17 that a capital investment is closed, placed into service, and used by our customers
18 and the time that this investment is reflected in customer rates. As indicated in
19 Column (b), most of Atmos Energy’s comprehensive annual review mechanisms
20 have a capital investment lag of 12 to 15 months. For a jurisdiction employing a
21 typical historic 12-month test period ending capital basis for ratemaking, the
22 average lag is six months plus the number of months between the end of the historic
23 test period and when new rates are implemented. However, some jurisdictions have

1 implemented measures to eliminate capital investment lag. For example, Tennessee
2 allows a “forward-looking” test year in its annual review mechanism, which
3 prevents capital investment lag. In the same vein, Mississippi permits a projected
4 level of capital investment in its annual stable rate filing, which also has the effect
5 of eliminating capital investment lag.

6 **Q. WHAT ARE THE FINANCIAL CONSEQUENCES OF CAPITAL**
7 **INVESTMENT LAG?**

8 A. The immediate consequence is that the Company’s capital investment goes
9 unrecovered and the Company bears the costs of this investment along with
10 depreciation expense, property taxes and carrying costs during the lag period. In
11 fact, the term “lag” is misleading with respect to recovery of these costs because
12 these costs incurred before being reflected in rates are never recovered by the
13 Company. In this way, the capital investment lag creates a greater gap between the
14 “allowed” and the “achieved” return. Because capital spending is the primary cause
15 of the Company’s need for rate adjustments, the impact of capital investment lag is
16 a serious impediment to the ability of the Company to have a reasonable
17 opportunity to earn its allowed rate of return, and it also increases pressure to file
18 more frequent general rate proceedings.

19 **Q. PLEASE DESCRIBE THE RATE MECHANISMS SPECIFIC TO**
20 **ACCELERATED PIPE REPLACEMENT EFFORTS IN ATMOS ENERGY.**

21 A. Ratemaking mechanisms specifically supporting infrastructure replacement are
22 found in columns (e) through (h) on Exhibit GLS-2. Those in columns (e) and (f)
23 represent 6 jurisdictions in 3 States where special capital treatment is afforded to

1 infrastructure replacement programs within the construct of a comprehensive
2 annual ratemaking mechanism. Each of these jurisdictions cut the impact of capital
3 investment lag to zero for qualified infrastructure replacement investments.

4 Columns (g) and (h) show 6 jurisdictions which have special capital
5 treatment for infrastructure replacement programs on a stand-alone basis, without
6 comprehensive annual rate reviews. Each of these jurisdictions cut the impact of
7 capital investment lag to zero for qualified investment in replacements.

8 Tennessee's Annual Review Mechanism is not included above but achieves
9 the same treatment by applying forward-looking treatment to all capital investment
10 types.

11 Lastly, the Company is awaiting approval from Virginia on a rider which
12 would cut the impact of capital investment lag to zero for qualified investment in
13 replacements.

14 **Q. WHERE DOES KANSAS STAND WITH RESPECT TO REDUCING LAG**
15 **ON INTEGRITY RELATED CAPITAL INVESTMENTS COMPARED TO**
16 **THE OTHER JURISDICTIONS IN WHICH ATMOS ENERGY**
17 **OPERATES?**

18 A. Kansas currently utilizes a Gas System Reliability Surcharge ("GSRs")
19 mechanism for qualified investments on system replacement but imposes an 11-
20 month capital investment lag under that mechanism. This statutory mechanism is
21 helpful in facilitating our efforts to replace Atmos Energy's system in Kansas but
22 is insufficient from both a gross capital investment perspective and a regulatory lag

1 perspective to fully support the necessary levels of capital expenditures Atmos
2 Energy needs to make in the near future to ensure system safety and reliability.

3 **Q. PLEASE DESCRIBE HOW THE CAPITAL INVESTMENT LAG UNDER**
4 **EXISTING KANSAS PROVISIONS COMPARES WITH THE OTHER**
5 **JURISDICTIONS IN WHICH ATMOS ENERGY OPERATES.**

6 A. The capital investment lag for system integrity capital expenditures produced by
7 Atmos Energy's most recent Kansas rate case is significantly longer than that of the
8 Company's other jurisdictions. Even if the Company were to file a rate case in
9 Kansas every year, capital investment lag would be longer than that experienced in
10 almost any of Atmos Energy's other operating jurisdiction. This is the result of the
11 fact that in a Kansas general rate case filing, the expected capital investment lag is
12 17 months, which is longer than in any of the Atmos Energy's jurisdictions with
13 comprehensive annual rate reviews. Columns (c) and (d) of Exhibit GLS-2 show
14 the jurisdictions without comprehensive annual rate reviews and which are still
15 dependent on general rate case filings and the respective capital investment lag for
16 their rate cases. Of those, only one of the other six jurisdictions in which periodic
17 rate cases are a major component of Atmos Energy's rate construct has a capital
18 investment lag greater than Kansas. We believe that a more responsive ratemaking
19 mechanism like the Company's proposed SIP would be beneficial to our enhanced
20 capital spending program in Kansas and would support not only lower ratepayer
21 costs but also more efficient deployment of capital within the State by the Company
22 to achieve our system safety and reliability goals.

1 **Q. DOES THE KANSAS GSRS PROVIDE A SUFFICIENT BRIDGE AND**
2 **EXTENSION BETWEEN RATE CASES?**

3 A. No, in part because of the 11-month capital investment lag produced by the GSRS
4 process and in part because the GSRS does not cover the entire level of capital
5 investment the Company intends to make in system integrity. This is not typical of
6 the infrastructure replacement mechanisms in the other Atmos Energy jurisdictions
7 in which they exist. While the Gas Reliability Infrastructure Program (“GRIP”) in
8 Texas also has a maximum capital investment lag of 11 months, the GRIP applies
9 to all investment types each year, while GSRS applies to only limited types of
10 capital investments. In addition, GSRS imposes certain conditions which GRIP
11 does not: a minimum financial filing threshold, a maximum cumulative GSRS
12 revenue amount and a maximum impact on the monthly residential charge of \$0.80
13 in any single filing.

14 **Q. PLEASE FURTHER DESCRIBE THE GSRS.**

15 A. The Kansas Legislature created the Gas Safety and Reliability Policy Act of 2006
16 (the “Act”) to underscore the importance of investment in the natural gas
17 distribution infrastructure. Through the GSRS, since 2008 the Act enabled us to
18 undertake a limited amount of system integrity investments to address risk on our
19 system and continue compliance with federal and state safety standards, subject to
20 a rate cap of \$0.40 annually on the average monthly residential bill. In 2018, the
21 Legislature amended the Act to expand the definition of qualifying investments and
22 to increase the cap to \$0.80.

1 **Q. HAS ATMOS ENERGY MADE SAFETY-RELATED INVESTMENTS**
 2 **ABOVE AND BEYOND THE INVESTMENT RECOVERABLE THROUGH**
 3 **GSRs?**

4 A. Yes. The table below shows the level of safety-related investment Atmos Energy
 5 has made in recent years. As the table indicates, Atmos Energy’s safety- related
 6 investment has far exceeded the amount recovered through GSRs. Add to this the
 7 fact that the GSRs has a substantial built-in capital investment lag, and the
 8 challenge facing the Company in efficiently deploying capital to achieve its system
 9 reliability goals in Kansas is apparent.

10 **Table GLS 1 - Safety and Reliability Spending**

Calendar Year	CY2015	CY2016	CY2017	CY2018	CY2019
Total GSRs Qualifying Spending	\$10,192,262	\$ 8,219,188	\$ 7,293,760	\$17,396,615	\$13,159,034
Non-GSRs Safety & Reliability Spending	\$10,543,316	\$ 9,716,346	\$ 8,935,080	\$ 5,853,544	\$ 8,527,560
Total Safety, Reliability, & GSRs Spending	\$20,735,578	\$17,935,534	\$16,228,840	\$23,250,158	\$21,686,594

11
 12 Even with the increase in the GSRs cap, Atmos Energy is still spending
 13 well above and beyond the level of investment that can be recovered through the
 14 surcharge.

15 **Q. HAS THE COMMISSION RECOGNIZED THE NEED FOR**
 16 **ACCELERATED PIPELINE REPLACEMENT IN KANSAS?**

17 A. Yes. The Commission has been examining and considering the necessity of
 18 increased safety-related infrastructure investment for many years now. In its Order
 19 in Docket No. 15-GIMG-343-GIG (the “343 Docket”), the Commission concluded
 20 that accelerated pipeline replacement is in the public interest. Specifically, the

1 Commission focused on “the accelerated, programmatic replacement of bare steel
2 mains, bare steel service/yard lines, and cast iron mains” and found that such
3 replacement “is in the public interest and necessary.” The Commission thus
4 “direct[ed] the Gas Utilities to develop a plan for the accelerated systematic
5 replacement of all of their bare steel service/yard lines, cast iron mains, and all bare
6 steel mains that are within a Class 3 location [which the utilities have interpreted
7 as urban areas in their service territories].” Mr. Armstrong addresses in his
8 testimony how Atmos Energy’s more comprehensive risk-based prioritization to
9 identify projects will accomplish these goals, as these two factors weigh heavily in
10 favor of replacement in the analysis. The Commission further expressed its policy
11 goals in its description of a proposed alternative recovery mechanism for recovery
12 of those investments, called the Accelerated Replacement Program (“ARP”).

13 **Q. IS THE ARP IN THE FORM PRESENTED IN THE 343 ORDER A VIABLE**
14 **RECOVERY MECHANISM FOR ATMOS ENERGY?**

15 A. Atmos Energy is in agreement with the Commission’s recognition of the need
16 for an alternative recovery mechanism for recovery of the costs of accelerated
17 replacement programs. However, some of the provisions of the ARP in the form
18 proposed by the Commission in the 343 Docket are unworkable for Atmos Energy.
19 The primary feature of the ARP that eliminates it as a viable option for the Company
20 is the requirement to replace all bare steel mains in urban areas and all bare steel
21 service lines on the Atmos Energy system over a ten year period with a \$0.40 per
22 month cap on the rate impact of that investment. While several of the ARP’s

1 provisions contain similar concepts to those proposed by the Company, the ARP
2 does not work for the Company for three primary reasons:

- 3 1. Given the specific characteristics of Atmos Energy's system including its
4 inventory of known infrastructure of higher relative risk, the compressed
5 ten-year replacement timeline would result in a strain on the availability of
6 resources necessary for accelerated replacement, including the ability to
7 obtain enough qualified contractors and construction crews at reasonable
8 rates, which would likely make the number and scope of projects required
9 difficult.
- 10 2. The replacement of all Atmos Energy's higher relative risk assets in a ten-
11 year replacement period of the ARP would result in significant disruption
12 of roads, facilities, and surrounding communities because of the amount of
13 construction that would be required within the compressed time frame. The
14 relationship with local governments and residents would be strained due to
15 the interference with the use of roads, the impact of obtaining necessary
16 local construction and other permits, the availability of local and state
17 inspectors to review the level of construction, and the increase in locates for
18 underground facilities.
- 19 3. Assuming that a ten-year replacement plan were physically and logistically
20 feasible for Atmos Energy, the cap on ARP recovery of \$0.40 per customer
21 per month is insufficient to recover the costs of a plan within that
22 compressed time frame. That level of recovery, which is the same as the
23 original statutory cap on the GSRS mechanism, would support an

1 approximate annual incremental investment of \$7.5 million for Atmos
2 Energy. In its Plan filed in the 343 Docket in April 2018, Atmos Energy
3 demonstrated that the ARP would only provide cost recovery for
4 approximately 22% of the annual investment necessary to replace bare steel
5 mains in urban areas and bare steel service lines over a ten-year period,
6 based upon cost estimates at that time.

7 Additional provisions further render the ARP incompatible with the level of
8 investment the Commission’s Order would require for Atmos Energy. The
9 Commission’s Order states that “the ARP will only apply to expenditures for
10 replacement of obsolete infrastructure over and above each of the Gas Utilities’
11 current amount of replacement expenditures,” which the Commission defines as
12 “their average replacement expenditures from the year 2014, 2015, and 2016.” In
13 recent years, Atmos Energy has been proactively investing incrementally an annual
14 average of approximately \$8.7 million in replacing its infrastructure in addition to
15 the investment that qualifies for recovery through the GSRS. Atmos Energy would
16 not begin to recover those costs until rates would be adjusted in a general rate case.
17 As Staff witness Grady testified in the 343 Docket, it is this investment that drove
18 Atmos Energy to file rate cases on almost an annual basis. If this investment is not
19 recoverable through the ARP, then Atmos Energy would need to continue to file
20 frequent rate cases, the costs of which it would not be able to recover pursuant to
21 the ARP mechanism as proposed. This problem would be exacerbated by the \$0.40
22 per month cap on the rate impact of the investment contemplated in the
23 Commission’s Order, which equates to only \$7.5 million of additional investment

1 by Atmos Energy. Since a much higher level of investment would be required by
2 the Order, the Company would be investing much more with general rate cases and
3 abbreviated rate proceedings as the only option for recovery. Rate cases involve
4 considerable expense and regulatory lag and would not allow Atmos Energy an
5 adequate opportunity to earn a reasonable return if investment were increased to
6 levels to comply with the ten-year replacement deadline.

7 **Q. HAS THE STAFF RECOGNIZED THE NEED FOR ACCELERATED**
8 **PIPELINE REPLACEMENT IN KANSAS?**

9 A. Yes. In the Company’s last rate case, the 079 Docket, based upon the proof and
10 data presented in that case, the Staff agreed that “a pipe replacement plan is in the
11 public interest” and that “the SIP [proposed in that case, subject to certain
12 modifications] provides a systematic approach toward evaluating the safety risks of
13 the distribution system and prioritizing the replacement activity to address
14 perceived safety threats. In that sense, I agree that the SIP is in the public interest.”¹
15 Ultimately, the Staff and the Citizens Utility Ratepayers Board (“CURB”) agreed
16 that a modified version of Atmos Energy’s proposed SIP as presented in the
17 unanimous Settlement Agreement in the 079 Docket was in the public interest and
18 should be approved, based upon the facts presented in that case. In the 343 Docket,
19 the Staff supported the same mechanism upon which the parties unanimously
20 agreed in the 079 Docket.

¹ See Direct Testimony of Leo Haynos, Docket No. 16-ATMG-079-RTS, at p. 7.

1 **Q. DOES THE EVIDENCE PRESENTED IN THIS DOCKET SUPPORT THE**
2 **SAME CONCLUSIONS?**

3 A. Yes. The Company's level of safety-related capital investment has remained at a
4 level well above and beyond that which is recoverable through GSRS. In order to
5 maintain a proactive approach to planned project replacement without very frequent
6 rate cases, Atmos Energy must have a cost recovery mechanism that allows for
7 timely recovery of these capital expenses.

8 **Q. IN THE DEVELOPMENT OF THE SIP MECHANISM PRESENTED IN**
9 **THIS CASE, DID THE COMPANY TAKE INTO ACCOUNT THE POLICY**
10 **GOALS AND RECOMMENDATIONS OF THE STAFF IN THE 343**
11 **DOCKET AND THE GOALS OF THE STAFF AND CURB SPECIFIC TO**
12 **ATMOS ENERGY IN THE 079 DOCKET?**

13 A. Yes. In the 343 Docket, Atmos Energy explained that the Staff, CURB, and the
14 Company had settled upon terms of a SIP mechanism, in conjunction with the other
15 terms of that unanimous Settlement Agreement. Atmos Energy's proposal for a SIP
16 mechanism in the 343 Docket reflected the outcome of those negotiations, which
17 compromise addressed the policy goals of each of the parties to the extent possible
18 in such a compromise. Also, in my testimony in the 343 Docket, I demonstrated
19 how this mechanism addressed each of the Staff's recommendations in its
20 memorandum, dated February 2, 2015, recommending that the Commission open a
21 general investigation docket on this matter.

1 **Q. DOES THE SIP MECHANISM PROPOSED IN THIS DOCKET ADDRESS**
2 **THE POLICY GOALS OF THE COMMISSION EXPRESSED IN THE 343**
3 **DOCKET?**

4 A. Yes. The SIP proposal in this docket is substantially similar to the SIP proposed in
5 the 079 Docket. The Company's proposal in this docket also addresses the
6 Commission's stated policy goals and resulting proposed ARP provisions in the 343
7 Order. The provisions of the SIP mechanism proposed in this rate case are needed
8 to reduce regulatory lag sufficiently to provide the Company with the opportunity
9 to earn a reasonable return. Like in the 079 Docket, Atmos Energy looks forward
10 to working with the Staff and CURB in this docket as necessary to make progress
11 toward that goal while adequately addressing the positions of each party.

12 The table below shows a comparison of the Commission's policy
13 goals/provisions expressed in the ARP proposal, the provisions of the SIP in the
14 unanimous settlement in the 079 docket, and the proposal in this case:

15

Table GLS-1

Policy Goal/Provision	ARP	Modified SIP²	Current SIP Proposal
<i>Limited time period to allow evaluation of effectiveness</i>	4-year pilot	5-year pilot	5-year pilot
<i>Cap on expenditures to balance safety with affordability</i>	\$0.40 cap (equivalent to \$7.5 million investment annually)	\$75 million over 5 years (average of \$15 million annually)	To be determined during the course of this docket
<i>Transparency and Opportunity for Commission Oversight</i>	10-year plan containing the goals, objectives, and capital expenditures; annual filings for review and approval	5-year plan containing the same or similar information; semi-annual filings for review and approval	5-year plan containing the same or similar information; quarterly filings for review and approval
<i>Types of Investment Allowed</i>	Bare steel service lines and bare steel mains in Class 3 Locations; only incremental investment based on a 2014-2016 baseline	Discretionary replacement of any obsolete materials determined by Atmos Energy through a risk-based method of prioritization	Discretionary replacement of any obsolete materials determined by Atmos Energy through a risk-based method of prioritization
<i>Reduction of Frequency of Rate Case Filings</i>	Penalties for filing a rate case within 4 years	3-year moratorium on general rate increases (subject to the availability of abbreviated rate case filings if needed to sustain reasonable levels of utility return on investment)	Proposal is anticipated to significantly reduce the frequency of rate cases but no moratorium proposed to allow for flexibility to accommodate unforeseen circumstances
<i>Timeline for replacement</i>	10 year fixed	Flexible accelerated timeline based on Atmos-specific system requirements and risk assessment	Flexible accelerated timeline based on Atmos-specific system requirements and risk assessment

² For a more detailed explanation of these provisions and the policy reasons supporting same, see the Direct Testimonies of Justin Grady and Leo Haynos on behalf of the Commission Staff in Docket 15-GIMG-343-GIG.

1 **Q. IF THE RELIEF REQUESTED IN THIS CASE IS NOT GRANTED, DOES**
2 **ATMOS ENERGY ANTICIPATE THE NEED TO FILE FREQUENT RATE**
3 **CASES, AS HAS BEEN THE CASE HISTORICALLY?**

4 A. Yes. If the Company is not granted a streamlined, timely approach for review,
5 approval, and rate recovery of safety-related investments, Atmos Energy must
6 instead file more frequent rate cases, request abbreviated rate cases, and file
7 frequent GSRS filings.

8 **Q. DOES THE COMPANY BELIEVE THE SIP ADDRESSES CONCERNS**
9 **EXPRESSED BY THE COMMISSION IN PARAGRAPH 59 OF THE FINAL**
10 **ORDER IN DOCKET NO. 14-ATMG-320-RTS?**

11 A. Yes. In paragraph 59 of the final order in Docket No. 14-ATMG-320-RTS the
12 Commission stated,

13 Finally, the Commission wishes to make known its concern about
14 incurring rate case expenses in rate cases filed every two years, as
15 has been Atmos's practice in recent years. As these expenses are
16 borne by ratepayers, the Commission desires to ensure no rate case
17 expense is unnecessary. To this end, in future rate case filings, the
18 Commission may inquire into whether a two-year interval for rate
19 cases is reasonable and whether rate case expenses are prudently
20 incurred when the rate cases are filed relatively close together.

21 Atmos Energy's SIP proposal will enable the Company to recover prudently
22 incurred safety-related investment while addressing the Commission's expressed
23 concern about incurring rate case expenses associated with the changing of rates.
24 Atmos Energy must be allowed the opportunity to earn a fair return on its
25 investment in order to attract the necessary capital from shareholders for safety-
26 related investment for the benefit of both its customers, who depend on the utility

1 to provide them safe and reliable service. Atmos Energy completely agrees with
2 the Commission that the cost of litigating general rate cases on a frequent basis,
3 while generally litigating the same issues in those cases, is both time consuming
4 and expensive and that there has to be a better way in which to provide the utility
5 an opportunity to earn a fair return on its investment, while reducing rate case
6 expense. Atmos Energy strongly believes that necessary safety-related capital
7 projects should not be the driver of frequent rate cases.

8 **Q. ARE THESE SAFETY-RELATED CAPITAL INVESTMENTS**
9 **EXTRAORDINARY INVESTMENTS THAT MEET THE**
10 **REQUIREMENTS FOR RECOVERY THROUGH AN ALTERNATIVE**
11 **RATE MECHANISM IN KANSAS?**

12 A. Yes. These capital expenses are largely outside of management control, in that they
13 are driven by safety standards and are unique to the circumstances of the current
14 need for replacement of high-risk infrastructure. These investments are also
15 expected to increase measurably in the future and are material and recurring.

16 **Q. IS ATMOS ENERGY'S CAPITAL INVESTMENT, INCLUDING ITS**
17 **SAFETY-RELATED INVESTMENT, CONSISTENTLY OUTPACING**
18 **DEPRECIATION EXPENSE?**

19 A. Yes. As Gary Gregory mentions in his testimony, Atmos Energy has been
20 consistently investing at a level approximately twice that of the depreciation
21 expense reflected in its current rates.

1 **Q. SHOULD THE COMPANY BE REQUIRED TO SPEND 100% OF THE**
2 **DEPRECIATION EXPENSE BUILT INTO BASE RATES IN THIS CASE IN**
3 **ORDER FOR SIP OR GSRS INVESTMENT TO BE QUALIFIED FOR**
4 **RECOVERY THROUGH SIP OR GSRS RATES?**

5 A. No. The Company's proposed SIP as well as GSRS investment will be recovered
6 on a lagged basis. Investing in infrastructure first and then establishing a rate for
7 recovery creates lag related to the depreciation expense as well as the carrying cost
8 of money between the date of the investment going into service and being recovered
9 in rates. Atmos Energy's SIP proposal, in combination with GSRS filings and
10 future rate cases, strikes a balance between allowing the Company to earn a return
11 on its investment while providing customers with safe and reliable service. While
12 plant does depreciate each month, the Company is experiencing lag on all of its
13 capital investment; thus, any adjustment to Atmos Energy's proposal should
14 consider this lag in order to permit the Company a reasonable opportunity to earn
15 its authorized return on investment.

16 **Q. YOU MENTION THAT THESE CAPITAL EXPENSES ARE EXPECTED**
17 **TO BE MATERIAL AND RECURRING AND INCREASE MEASURABLY**
18 **OVER TIME. DOES THAT MEAN THAT YOU EXPECT A LARGE RATE**
19 **IMPACT TO CUSTOMERS?**

20 A. No, the rate impact of the System Integrity Program is expected to be gradual and
21 manageable, especially when compared to the rate impacts of electric utility
22 investments. Atmos Energy expects that investment to begin with an initial ramp-
23 up period and grow systematically over time.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

IV. SYSTEM INTEGRITY PROGRAM

Q. PLEASE DESCRIBE THE PURPOSE OF THE SYSTEM INTEGRITY PROGRAM IN SCHEDULE X OF THE COMPANY’S PROPOSED TARIFFS.

A. The SIP is specifically intended to allow the Company to accelerate its progress in the replacement of obsolete materials in the Kansas system, which could not occur at this pace otherwise.

Q. COULD YOU PLEASE DESCRIBE THE COMPANY’S PROPOSED SIP MECHANISM?

A. Yes. The SIP is a quarterly surcharge mechanism meant to support and recover the costs incurred by the Company as a result of its proposed acceleration of investment in obsolete pipe replacement projects. The need for such accelerated replacement of obsolete Kansas pipe operated by the Company is addressed in the testimony of Company witnesses Gary Gregory and Bart Armstrong. As proposed, the SIP would be an experimental five-year mechanism subject to renewal or modification at the end of its initial term.

V. SYSTEM INTEGRITY PROGRAM MECHANICS

Q. HOW WOULD THE SCOPE OF THE SIP BE ESTABLISHED?

A. The Company would file a five-year general plan for SIP projects and overall goals for progress on enhancing system integrity along a detailed project plan for the first SIP year with the Commission on July 1, 2020, with subsequent annual project plans to be filed on August 1 of each year. The time period for the Commission’s review and acceptance of the SIP program goals and the projects for the first plan

1 year would be completed by November 1, 2020. The first SIP plan year would be
2 calendar year 2021. Four successive 12-month periods thereafter from would
3 define the five-year SIP pilot.

4 **Q. WOULD PROJECTS APPROVED IN THE SIP BE TRACKED**
5 **SEPARATELY FROM OTHER INVESTMENTS?**

6 A. Yes. The Company would utilize its PowerPlant Accounting System, which has the
7 functionality to separately track these specific system integrity projects.

8 **Q. PLEASE DESCRIBE THE RATE TREATMENT FOR QUALIFIED SIP**
9 **INVESTMENTS.**

10 A. The revenue requirement associated with closed SIP projects would be updated and
11 rates refreshed every three months. The first quarterly rate adjustment filing for the
12 SIP would occur in mid-April 2021. The quarterly filing will list approved SIP
13 projects completed during the period from January 1, 2021 through March 31, 2021.
14 Subject to regulatory review, rates would be changed effective July 1, 2021.

15 **Q. HOW CAN REGULATORY REVIEW OF THE SIP RATE CHANGE BE**
16 **ACCOMPLISHED IN SUCH A SHORT TIMEFRAME?**

17 A. The initial regulatory review would consist of a check that the identified quarterly
18 projects match up with the annual review SIP projects as previously approved by
19 the Commission. Second, the revenue requirement calculation would be verified.
20 Finally, the rate change necessary to produce the additional revenue requirement
21 would be verified. We believe that this regulatory review of the quarterly SIP rate
22 change is less complex than the Purchased Gas Adjustments that often occur on a

1 monthly basis and within the same time frame used by the Commission and is Staff
2 currently in reviewing GSRS filings made by Atmos Energy.

3 **Q. WHEN WILL A MORE THOROUGH REGULATORY REVIEW OF**
4 **PROJECT INVOICES OCCUR?**

5 A. Each August the Company will file a SIP project plan for the upcoming SIP plan
6 year, along with a report of closed SIP projects through prior periods. These annual
7 updates will provide project details and afford discovery opportunities relating to
8 invoices and charges to those SIP projects. Any regulatory adjustments or
9 reclassifications of costs will be reflected in the next quarterly rate change.

10 **Q. WHAT HAPPENS AT THE END OF THE SIP FIVE-YEAR PILOT TERM?**

11 A. The Company proposes to file a SIP report in 2024 reviewing the success of the SIP
12 to date with respect to its original goals. In that report, the Company will make a
13 proposal for continuance or refinement of the SIP program beyond its initial five-
14 year pilot term. Commission acceptance of any SIP program going forward would
15 be sought by July 1, 2025. That timing would afford the Company sufficient time
16 for planning for SIP projects after the conclusion of the five-year pilot.

17 **Q. WITH THE PROPOSED QUARTERLY RATE ADJUSTMENTS IN THE**
18 **KANSAS SIP, WHAT IS THE UNDERLYING CAPITAL INVESTMENT**
19 **LAG?**

20 A. Four and one-half months. This would significantly reduce the capital investment
21 lag under the current process in Kansas and align that process closer to the zero
22 capital investment lag in our other jurisdictions.

1 **VI. BILLING DETERMINANTS STUDY**

2 **Q. WHAT ARE BILLING DETERMINANTS?**

3 A. Billing determinants are units of service to which the Company's distribution rates
4 are applied. Specifically, these units include natural gas volumes sold or
5 transported, customer counts and miscellaneous other revenues for non-recurring
6 customer service transactions.

7 **Q. WHAT IS THE PURPOSE OF CONDUCTING A BILLING
8 DETERMINANTS STUDY?**

9 A. The billing determinants study provides the data and calculations necessary to
10 adjust volumes delivered to reflect normal weather conditions, and to account for
11 other known and measurable adjustments including, but not limited to, annualizing
12 changes in usage patterns by industrial customers. The calculations are shown in
13 Section 17 of the Company's rate case application. The total of the adjustments for
14 normal weather and other customer volume changes, as well as, proration of facility
15 charges of sales service customers is reflected in adjustment IS-16 in Section 3A of
16 the filing. The Company has elected to perform the calculations in the billing
17 determinants study consistent with recently approved methodologies for Atmos
18 Energy in Kansas.

19 **Q. PLEASE DESCRIBE THE CALCULATIONS REFLECTED IN SECTION
20 17 OF THE REVENUE REQUIREMENTS MODEL.**

21 A. Columns (d) and (e) reflect actual, per books bill counts and billed volumes by tariff
22 service for the test year in this docket, the 12-month period ended March 31, 2019.

1 Columns (f) and (g) reflect known and measurable adjustments for larger
2 volume sales customers and transportation service customers.

3 Columns (h) and (i) demonstrate a proration adjustment to sales service
4 customer bills. Specifically, Column (h) demonstrates the variance of approved
5 and collected facility charges during the test period. Column (i) shows the
6 adjustment made to the number of sales service customer bills to reflect the effects
7 of proration.

8 Column (j) shows the adjustments necessary for tariff sales volumes to
9 reflect “normal” weather for the period.

10 Column (q) computes the revenue at present rates, applying current monthly
11 facilities charges to the adjusted bill counts and the current commodity rate to the
12 adjusted, normalized volumes for each tariff service.

13 **Q. PLEASE DESCRIBE FURTHER THE ADJUSTMENTS TO LARGE**
14 **VOLUME SALES AND TRANSPORTATION SERVICES.**

15 A. This adjustment is made to account for changes relating to larger customer volume
16 data confirmed by Atmos Energy marketing representatives. The adjustment in this
17 case accounts for two firm transportation customers switching to commercial sales
18 during the test year. Workpaper 17-3 shows the detail of these adjustments.

19 **Q. PLEASE DESCRIBE THE REASONING FOR ADJUSTING CUSTOMER**
20 **BILLS FOR PRORATION.**

21 A. Customer bills do not always consist of a standard monthly billing period, yet the
22 Company’s billing system reports bill counts as integers. Proration is designed to
23 adjust for the billing system’s incidental over statement of bill counts during the

1 test period. This adjustment methodology has been employed in the final billing
2 determinants in the most recent Company rate cases, Dockets 14-ATMG-320-RTS
3 and 16-ATMG-079-RTS.

4 **Q. PLEASE DESCRIBE HOW THE ACTUAL NUMBER OF SALES**
5 **CUSTOMER BILLS WAS ADJUSTED FOR PRORATION.**

6 A. Workpaper 17-4 of the Company's Application model demonstrates the
7 calculations used for the proration adjustment. The Company used monthly
8 customer revenue collected from facility charges by sales customer class and
9 divided it by the monthly facility charge counts by sales customer class to derive
10 an actual full-month equivalent facility charge collected by sales customer class.
11 The variance is displayed in Section 17 Column (h). This percentage was then
12 applied as a proration adjustment to the test period of bills as displayed in Section
13 17 Column (i).

14 **Q. PLEASE DESCRIBE HOW THE ACTUAL SALES VOLUMES WERE**
15 **WEATHER NORMALIZED?**

16 A. The Company utilizes the same methodology used in its Weather Normalization
17 Adjustment ("WNA") calculations submitted to KCC Staff each year. Workpaper
18 17-1 shows the WNA dollar amount computed and converts the dollar amount back
19 into a volumetric amount. These volumetric amounts are then accumulated and
20 reflected in Column (n) in Section 17 of the Company's rate case application.

1 **Q. HOW DID THE COMPANY DETERMINE WHAT NATIONAL OCEANIC**
2 **AND ATMOSPHERIC ADMINISTRATION ("NOAA") WEATHER**
3 **STATIONS TO USE?**

4 A. The weather points utilized in the billing determinants study are the same stations
5 utilized in Atmos Energy's last rate case, the 079 Docket.

6 **Q. DID THE COMPANY HAVE TO SUBSTITUTE ANY WEATHER DATA**
7 **DUE TO UNAVAILABILITY FROM NOAA?**

8 A. Yes. The weather data downloaded from NOAA on April 24, 2019, was incomplete,
9 therefore some degree day information from nearby primary stations was used to
10 estimate the April 2018 - March 2019 WNA adjustment. This substitution method
11 is utilized in the Company approved annual calculation of WNA.

12 **Q. DID THE COMPANY MAKE AN ADJUSTMENT RELATED TO AD**
13 **VALOREM TAX SURCHARGE REVENUE?**

14 A. Yes. The per books amount of Ad Valorem Tax Surcharge revenue must be
15 eliminated since the revenue is subject to annual reconciliation and comparison
16 with previous years' collections (WP 17-2).

17 **Q. ARE THE PROPOSED RATES REFLECTED IN THE TARIFFS FILED IN**
18 **THIS DOCKET?**

19 A. Yes. I am sponsoring Schedule IV of our tariffs with the proposed rates reflected
20 on the appropriate sheets. I am also sponsoring Schedule VIII, Gas System
21 Reliability Surcharge Rider with rates returning to zero at the conclusion of this
22 Docket. Similarly, Schedule IX, the Tax Reform Credit is reset to zero at the

1 conclusion of this Docket³ with only true-up provisions continuing for a short time
2 thereafter.

3 **Q. ARE ANY OTHER TARIFFS INCLUDED IN THE COMPANY'S FILING?**

4 A. Yes. The System Integrity Program Rider I discuss in my testimony is reflected in
5 Schedule X.

6 **Q. IS THERE ANY OTHER ISSUE IN THIS CASE YOU WISH TO ADDRESS?**

7 A. Yes. In the 079 Docket, the previous transportation service volume qualification
8 criteria of 15,000 ccf per year was eliminated. The Company agreed to track any
9 migration of small commercial customers from sales to transportation service and
10 identify any impact of such migration on its design day requirements.

11 We have determined that a total of 17 commercial sales customers shifted
12 from sales service to transportation service since the volume qualification criteria
13 was eliminated. However, only one of those customers consume less than 15,000
14 ccf per year. Sixteen of the customer shifts would have been in compliance with
15 the former qualification criteria. This demonstrates the de minimis impact of the
16 elimination of the qualification criteria while maintaining appropriate requirements
17 for electronic flow metering as a condition of transportation service. With respect
18 to changes in design day requirements, it is also noteworthy that total sales volumes,
19 including Commercial Sales, have risen since the 079 Docket despite this de
20 minimis shift to transportation service.

³ Note that Schedule IX has a pending approval in Docket No. 18-GIMX-248-GIV that should be resolved prior to the end of this case.

1 **VII. SUMMARY OF TESTIMONY**

2 **Q. CAN YOU SUMMARIZE THE CONCLUSIONS IN YOUR DIRECT**
3 **TESTIMONY?**

4 A. Yes. Atmos Energy's proposed SIP mechanism is needed to support the ongoing
5 current level of safety and integrity related investment being made by the Company
6 and a further acceleration of the current pace of replacement of obsolete pipeline
7 facilities posing a higher risk of failure within the State of Kansas. The policy
8 goals of the SIP mechanism are consistent with the need to accomplish such
9 replacements outlined in the testimony of Company witnesses Gregory and
10 Armstrong and the Staff's report and Commission's Order in the 343 Docket.
11 Approval of this tariff proposal is essential to accelerate the pace of replacing
12 obsolete facilities that pose the highest risk in the Kansas distribution system.

13 In addition, the Company's billing determinants as described in my
14 testimony are just and reasonable and consistent with the public interest.

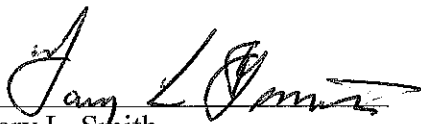
15 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

16 A. Yes.

VERIFICATION

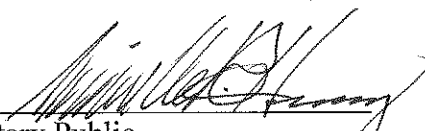
STATE OF TEXAS)
)
COUNTY OF DALLAS)

Gary L. Smith, being duly sworn upon his oath, deposes and states that he is Director Rates & Regulatory Affairs for Atmos Energy Corporation; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information and belief.



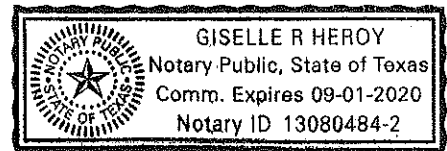
Gary L. Smith

Subscribed and sworn before me this 24th day of June, 2019.



Notary Public

My appointment expires: 9/1/2020



Form RF	Index No.
THE STATE CORPORATION COMMISSION OF KANSAS	
ATMOS ENERGY CORPORATION (Name of Issuing Utility)	Proposed Schedule X: System Integrity Program
ENTIRE SERVICE AREA (Territory to which Schedule is applicable)	
No Supplement or separate understanding shall modify the tariff as shown hereon.	
	Sheet 1 of 3 Sheets

SCHEDULE X – SYSTEM INTEGRITY PROGRAM

APPLICABILITY

This rider is applicable to every bill for service provided under each of the Company's sales and transportation rate schedules except where not permitted under a separately negotiated contract with a customer.

PURPOSE

This System Integrity Program ("SIP") mechanism is designed to promote additional capital investment which will be required in order to accelerate the pace of replacement of obsolete materials in the Kansas distribution system. If, through the implementation of the provisions of this mechanism, it is determined that rates should be decreased or increased, then rates will be adjusted accordingly in the manner as set forth herein. The rate adjustments implemented under this mechanism will reflect quarterly changes in the Company's cost of service and rate base related to the completed qualified projects.

DEFINITIONS

1. The **Initial SIP Plan Filing** by the Company will include a five-year general plan of projects intended under the SIP, overall goals for progress on enhancing system integrity, an estimate of total expected capital investment and a detailed project plan for the first SIP Plan Year. The Initial SIP Plan Filing will be made by July 1, 2020. Approval of the Initial SIP Plan and first SIP Plan Year will be targeted for no later than November 1, 2020.
2. The **Annual SIP Project Plan** will be filed by August 1 each year for SIP Plan Years 2 through 5. The plan will also include a review of progress made under the SIP to date and any update to the overall five year plan. Approval of the plan will be targeted for November 1 each year.
3. The **SIP Plan Year** is the period from January 1 through December 31 of the calendar year following the filing of the Annual SIP Project Plan.
4. **SIP Projects** are those approved by the Commission as qualified projects under this program.
5. The **Quarterly SIP Rate Filing** by the Company will be made no later than April 15, July 15, October 15 and January 15 of each year.
6. Provided there are no contested issues that would require an evidentiary hearing, A **Quarterly SIP Rate Change** occurs July 1, October 1, January 1 and April 1 of each year. In the event an evidentiary hearing is required, any approved surcharge would be effective for bills on and after the date of the Commission's Order.
7. The **SIP Plan Review** shall be conducted by the Commission to review the appropriateness of charges and/or changes to SIP projects closed through the prior SIP Plan Year.
8. **Intervener(s)** refers to the Citizens' Utility Ratepayer Board ("CURB") or any other party granted intervention by the Commission.

Issued:	June 28	2019
	(Month) (Day)	(Year)
Effective:	Upon Commission Approval	
	(Month) (Day)	(Year)
By:	/s/ Jared N. Geiger Vice President, Rates & Regulatory Affairs	
	(Signature of Officer)	(Title)

Form RF	Index No.
THE STATE CORPORATION COMMISSION OF KANSAS	
ATMOS ENERGY CORPORATION (Name of Issuing Utility)	Proposed Schedule X: System Integrity Program
ENTIRE SERVICE AREA (Territory to which Schedule is applicable)	
No Supplement or separate understanding shall modify the tariff as shown hereon.	
Sheet 2 of 3 Sheets	

ANNUAL SIP PROJECT PLAN

The Company shall file with the Commission and Intervener(s) its initial Annual SIP Project Plan by July 1, 2020 and by August 1 of each year thereafter. The Annual SIP Project Plan will include a five-year general plan of projects intended under the SIP, overall goals for progress on enhancing system integrity and estimated total expected capital investment levels for the SIP Plan Year. The Annual SIP Project Plan will also include a detailed project plan for the upcoming SIP Plan Year. The Commission and Intervener(s) will have a total of four months for discovery and review of the Annual SIP Plan Filing and the specific projects proposed for the first SIP Plan Year.

No later than November 1 each year, the Commission will approve the Annual SIP Plan and SIP Projects proposed for the upcoming SIP Plan Year.

SIP Plan Execution, Quarterly SIP Rate Change and Annual SIP Review

The Company's Quarterly SIP Rate Change Filing will include a listing of the SIP Projects completed during the period, the total capital investment for each project, accumulated depreciation, accumulated deferred income taxes and depreciation expense. The filing will also compute the associated revenue requirement for SIP Projects completed and the proposed rates, which will be apportioned to each class and rate component based on the margin proportions approved in the prior rate case. A description of the SIP revenue requirement calculation is provided below.

The first Quarterly SIP Rate Change Filing for the SIP Plan Year will be made by the Company no later than April 15 and will reflect SIP Projects completed during the period from January 1 through March 30. Staff will make its recommendation to the Commission no later than June 1. No later than July 1, the Commission will validate that the SIP Projects listed in the Quarterly SIP Rate Filing correspond to the qualified SIP Projects approved by the Commission for the SIP Plan Year. Further, the Commission will validate that the revenue requirements calculations and proof of rates calculations are correct. Approval of the Quarterly SIP Rate Change will be attained with a rate change effective on July 1.

The same process will be repeated for the second, third and fourth Quarterly SIP Rate Change for the SIP Plan Year, with the Company making those filings no later than July 15, October 15 and January 15 respectively. That filing will reflect SIP Projects completed during the prior calendar quarter. Staff will make its recommendation to the Commission within approximately 45 days. Within one month thereafter, the Commission will validate that the SIP Projects listed in the Quarterly SIP Rate Filing correspond to the qualified SIP Projects approved by the Commission for the SIP Plan Year. Further, the Commission will validate that the revenue requirements calculations and proof of rates calculations are correct. Approval of the Quarterly SIP Rate Change will be attained with a rate changes effective on July 1, October 1, January 1 and April 1 respectively.

Issued:	June (Month)	28 (Day)	2019 (Year)
Effective:	Upon Commission Approval (Month) (Day) (Year)		
By:	/s/ Jared N. Geiger Vice President, Rates & Regulatory Affairs		(Title)
	(Signature of Officer)		

Form RF	Index No.
THE STATE CORPORATION COMMISSION OF KANSAS	Proposed Schedule X: System Integrity Program
<u>ATMOS ENERGY CORPORATION</u> (Name of Issuing Utility)	
<u>ENTIRE SERVICE AREA</u> (Territory to which Schedule is applicable)	
No Supplement or separate understanding shall modify the tariff as shown hereon.	Sheet 3 of 3 Sheets

To the extent that any changes are made to the Annual SIP Project Plan, the burden would be on the Company to explain and justify those changes in its Quarterly SIP Rate Change filings. Upon completion of its review, the Commission will determine whether any regulatory adjustments or reclassification of costs is warranted.

Quarterly SIP Rate Change Calculations

The SIP revenue requirement includes the following:

- SIP Project plant in-service minus the associated accumulated depreciation and accumulated deferred income taxes;
- Retirement and removal of plant related to SIP Projects;
- The rate of return on the net rate base is the overall rate of return on capital authorized in the Final Order 19-ATMG-xxx-RTS, grossed up for federal and state income taxes; and
- Depreciation expense on the SIP Projects plant in-service less retirement and removals

Issued:	<u>June</u> (Month)	<u>28</u> (Day)	<u>2019</u> (Year)
Effective:	<u>Upon Commission Approval</u> (Month) (Day) (Year)		
By:	<u>/s/ Jared N. Geiger</u> (Signature of Officer)		<u>Vice President, Rates & Regulatory Affairs</u> (Title)

Line #	Jurisdiction	Comprehensive Formula Rate Making /Annual Rate Review	Capital Investment Lag, months ^[1]	Comprehensive Rate Case (no set filing frequency) ^[2]	Capital Investment Lag, months ^[1]	Infrastructure Replacement Only Tracker			Tracker for all Capital Spending		
						Special Capital Treatment in Annual Review Mechanism	Capital Investment Lag, months ^[1]	Stand-alone Rate Treatment	Capital Investment Lag, months ^[1]	Stand-alone Rate Treatment	Capital Investment Lag, months ^[1]
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Kansas (Existing)	N		Y	17+			Y (GSRS) ^[3]	11		
2	Kansas (Proposed)							P	4.5		
3	Colorado	N		Y	21+			Y	0		
4	Kentucky	N		Y	0+			Y	0		
5	Louisiana - LGS	Y	12			Y	0				
6	Louisiana - Trans LA	Y	12			Y	0				
7	Mississippi	Y	0			Y	0				
8	Tennessee	Y ^[4]	0				0 ^[4]				
9	Texas - Mid-Tex ACSC Cities ^[6]	Y	15			Y	0				
10	Texas - Mid-Tex ATM Cities	N		Y	15+			Y	0	Y (GRIP) ^[5]	11
11	Texas - Mid-Tex-Dallas	Y	14			Y	0				
12	Texas - Mid-Tex (Unincorporated Areas)	N		Y	15+			Y	0	Y (GRIP) ^[5]	11
13	Texas - West Texas ^[7]	Y	15			Y	0				
14	Texas - West Texas (Unincorporated Areas)	N		Y	15+			Y	0	Y (GRIP) ^[5]	11
15	Texas - W Tx (Amarillo, Lubbock) ^[8]	N		Y ^[9]	15+			Y	0	Y (GRIP) ^[5]	11
16	Virginia	N		Y ^[10]	6+			P	0		

Notes:

- Y Atmos Energy utilizes a specific tariff, rule, or statute in the jurisdiction
- N Atmos Energy has no specific tariff, rule, or statute in the jurisdiction
- P Proposed
- 1 For purposes of this chart, the number of months between the rate effective period and the respective test period (or evaluation period).
- 2 These areas are currently dependent on periodic comprehensive rate case filings. Lag shown excludes the period between case test periods.
- 3 GSRS limits the increase to \$0.80 per residential customer per month
- 4 All Capital (including Infrastructure Replacement) afforded forward-looking treatment
- 5 Available by statute, used currently in areas with Railroad Commission as primary jurisdiction and ATM Cities, Amarillo, Lubbock, Dalhart, and Channing.
- 6 All cities except City of Dallas and ATM Cities
- 7 All cities except Cities of Amarillo, Lubbock, Dalhart and Channing
- 8 Also includes Cities of Dalhart and Channing
- 9 Based upon resolution with the Cities; if appealed to the Railroad Commission, lag could be 21 months
- 10 May file expedited annual rate adjustment. Includes ability to implement interim rates