

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 JENNIFER K. STORY**

1 **I. INTRODUCTION**

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

3 A. My name is Jennifer K. Story. My business address is 5420 LBJ Freeway, Suite  
4 1600, Dallas, TX, 75240.

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

6 A. I am the Director of Regulatory Reporting (Shared Services) for Atmos Energy  
7 Corporation (“Atmos Energy” or “Company”). I am responsible for oversight and  
8 management of the integration of the Company’s financial books and records in  
9 rate and regulatory filings. I am responsible for managing regulatory income tax  
10 matters for the Company as well as assisting in the coordination of the Company’s  
11 rate and regulatory strategy. This oversight includes ensuring that the Company’s  
12 rate filings appropriately reflect income tax expense and accumulated deferred  
13 income taxes (“ADIT”) and are in compliance with applicable IRS requirements.

14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
15 **PROFESSIONAL EXPERIENCE.**

16 A. I received my education at the University of Texas at Dallas. In 2002, I received a  
17 Bachelor of Science degree with a major in accounting. I am a licensed certified  
18 public accountant in the State of Texas.

1 I worked in both a large corporate tax department and in public accounting  
 2 prior to joining Atmos Energy in December 2006. I rose through positions of  
 3 increasing responsibility in the Company’s Tax department, eventually assuming  
 4 the oversight and management of all income tax matters for the Company. I also  
 5 serve as a representative for the Company on the American Gas Association’s Tax  
 6 Committee. In January 2019, I took on my current role as the Director of Regulatory  
 7 Reporting.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS**  
 9 **CORPORATION COMMISSION (“COMMISSION” OR “KCC”) OR**  
 10 **OTHER REGULATORY ENTITIES?**

11 A. I have never submitted filed testimony before this Commission, though I have  
 12 submitted direct and rebuttal testimony in the following proceedings:

<b>Regulatory Authority</b>	<b>Proceeding</b>	<b>Testimony</b>
Kentucky Public Service Commission	Docket No. 2017-00481	Direct
Kentucky Public Service Commission	Docket No. 2017-00349	Rebuttal
Kentucky Public Service Commission	Docket No. 2018-00281	Direct
Colorado Public Utilities Commission	Proceeding No. 15AL-0299G	Rebuttal
Mississippi Public Service Commission	Docket No. 2015-UN-049	Rebuttal
Railroad Commission of Texas	GUD No. 10580	Rebuttal
Railroad Commission of Texas	GUD No. 10640	Rebuttal
Railroad Commission of Texas	GUD No. 10742	Direct
Railroad Commission of Texas	GUD No. 10743	Direct
Railroad Commission of Texas	GUD No. 10779	Direct and Rebuttal
Tennessee Public Utility Commission	Docket No. 17-00012	Direct and Rebuttal
Tennessee Public Utility Commission	Docket No. 18-00067	Direct
Tennessee Public Utility Commission	Docket No. 18-00034	Direct and Rebuttal
Tennessee Public Utility Commission	Docket No. 18-00097	Rebuttal
Virginia State Corporation Commission	Case No. PUR-2018-00014	Direct

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1 of this answer to calculate a Kansas Revenue Requirement of \$70.3 million and a  
2 Kansas annual Revenue Deficiency of \$6.3 million in base rates<sup>2</sup>. These results  
3 reflect Kansas direct operations, plus allocations from the Company's  
4 administrative offices serving Kansas (Shared Services General Office, Shared  
5 Services Customer Support, and Colorado-Kansas General Office).

6 **Section 4 Plant Investment.** This section provides functional plant balances for  
7 direct and allocated gross plant in service. The gross plant in service is further  
8 supported later in my testimony.

9 **Section 5 Accumulated Depreciation, Amortization and Depletion.** This section  
10 provides accumulated depreciation balances for direct and allocated accumulated  
11 reserve. The accumulated depreciation is further supported later in my testimony.

12 **Section 6 Working Capital.** This section provides thirteen month average  
13 calculations of prepayments and storage gas. The prepayments and storage gas are  
14 further supported later in my testimony.

15 **Section 7 Capital and Cost of Money.** This section provides the Company's  
16 proposed capital structure, cost of long-term debt, return on equity and computes  
17 an overall proposed return on rate base. The proposed capital structure, cost of debt  
18 and the requested return on equity is supported by Company witness, Dylan  
19 D'Ascendis.

20 **Section 9 Test Year and Pro-forma Income Statements.** Within Section 9, Test Year  
21 and Pro-forma Income Statements, the section provides the Company's proposed

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<sup>2</sup> \$6.3 million represents the net revenue deficiency (\$9.6 million gross revenue deficiency, offset by \$3.3 million GSRS revenue). Please note that \$6.3 million excludes recovery of rate case expenses, which are included in the \$7.2 million revenue increase cited in my testimony on page 4.

1 Operation and Maintenance expense. The proposed Operation and Maintenance  
2 and pension expense, direct and allocated, is supported later in my testimony.

3 **Section 10** Depreciation and Amortization Expense. This section provides  
4 depreciation and amortization expense which is associated with the Company's  
5 requested gross plant. The Company's direct depreciation rates were last updated  
6 in Docket No. 16-ATMG-079-RTS ("079 Docket"). New direct depreciation rates  
7 are being requested in this proceeding and are supported by the studies prepared by  
8 Company witness, Mr. Ned W. Allis. The Company is not requesting updated  
9 depreciation rates for the Colorado/Kansas General Office and the Shared Services  
10 Divisions, General Office and Customer Support. Those rates were last approved  
11 in the 079 Docket.

12 **Section 11 and 11B** Taxes Other Than Income Taxes and Computation of Income  
13 Taxes. This section provides the Company's proposed Taxes Other Than Income  
14 Taxes and the computation of Income Taxes. These sections are further supported  
15 later in my testimony.

16 **Section 14A** Summary of Other Rate Base Components. This section provides the  
17 Company's proposed other rate base components of construction work in progress,  
18 customer advances for construction, customer deposits and accumulated deferred  
19 income taxes. These items are further supported later in my testimony.

20 **Section 14C** Computation of Interest on Customer Deposits. This section  
21 computes the proposed adjustment related to interest expense for customer  
22 deposits. This item is further supported later in my testimony.

1        **Section 17** Summary of Revenue at Present and Proposed Rates. This section  
2        computes the normalized revenue at present and proposed rates for each of the  
3        Company’s tariffs. This section, containing adjustment IS-16, is supported by  
4        Company witness, Mr. Gary Smith.

5                Other Sections included in the MFRs are **Section 8**, Financial and Operating  
6        Data; **Section 12**, Allocation Ratios, **Section 13**, Annual Report (which also  
7        includes the financial statements required in **Section 16**) and **Section 18** Tariffs  
8        with Proposed Rate Changes. **Section 18** includes the changes to the Company’s  
9        tariffs to reflect the new rates proposed in this rate case.

10                                **IV.     RATE BASE ADJUSTMENTS (RB-1 - RB-2)**

11    **Q.     DOES THE COMPANY HAVE ANY ADJUSTMENTS TO PLANT IN**  
12    **SERVICE AND ACCUMULATED RESERVE?**

13    A.     Yes. Sections 4 and 5 both include adjustments to reclassify amounts from accounts  
14        37600, 37601 and 37602 to proposed new accounts 37603 - Anodes and 37604 -  
15        Leak Clamps. Company witness Mr. Ned Allis discusses these proposed new  
16        accounts and the proposed depreciation rates in his testimony. Additionally, as  
17        shown in Sections 4 and 5 of the Rate Application, plant in service and accumulated  
18        reserve from Shared Services and the Colorado/Kansas General Office were  
19        allocated to the Kansas service area.

20    **Q.     WHAT ADJUSTMENT WAS MADE TO CONSTRUCTION WORK IN**  
21    **PROGRESS (“CWIP”) (RB-1)?**

22    A.     Two items are included within the adjustment made to CWIP. The first item is  
23        consistent with prior cases and removes the accumulated cost of long-term projects

1 from CWIP. The second item is to include in CWIP spending in the amount that,  
2 in addition to the balances at the end of the period, will be spent and closed in the  
3 Company's September 2019 books. This adjustment, designated as RB-1, is shown  
4 on WP 14-1.

5 **Q. DOES KANSAS LAW ALLOW FOR THESE PROJECTS TO BE**  
6 **INCLUDED IN RATE BASE?**

7 A. Yes. K.S.A. 66-128 (2) (A) permits projects completed within one year from the  
8 end of the test period to be included in rate base. The Company anticipates that  
9 these projects will close prior to the end of fall 2019 and can be audited and  
10 confirmed to be completed by KCC Staff and CURB during their audit of this rate  
11 case.

12 **Q. HOW WOULD THE COMPANY PROPOSE UPDATING THE FILING**  
13 **ONCE ACTUAL AMOUNTS ARE CLOSED IN THE SEPTEMBER 2019**  
14 **BOOKS AND RECORDS SO THAT KCC STAFF AND CURB WILL BE**  
15 **ABLE TO CONFIRM THE PROJECTS HAVE BEEN COMPLETED?**

16 A. The Company would use the same method used in its 2012, 2014 and 2016 Kansas  
17 rate cases (Docket No. 12-ATMG-564-RTS, Docket, Docket No. 14-ATMG-320-  
18 RTS ("320 Docket") and 079 Docket) to update the KCC Staff and CURB. The  
19 Company will track the costs and does not anticipate that actual costs will vary  
20 significantly from the amount included within the filing. After the September  
21 books close in October 2019, the Company will provide updated Schedules to KCC  
22 Staff and CURB to reflect the actual amounts closed to plant along with any  
23 associated retirements.



1 **Q. WOULD THE COMPANY UPDATE THE ENTIRE SET OF FILING**  
2 **SCHEDULES?**

3 A. No. The Company would not propose to update its complete set of filed schedules,  
4 unless requested by KCC Staff or CURB. Rather, in updating the specific work  
5 papers associated with these projects, the impact of any variance between actual  
6 and estimated project costs can be included in KCC Staff's and CURB's Accounting  
7 Schedules.

8 **Q. IS THE INCLUSION OF THESE ADDITIONAL AMOUNTS THROUGH**  
9 **SEPTEMBER 2019 CONSISTENT WITH THE METHODOLOGY USED IN**  
10 **THE COMPANY'S PREVIOUS RATE CASE?**

11 A. Yes. This approach is consistent with the Company's filing in its most recent rate  
12 case, in which the Company included additional capital spending related to specific  
13 capital projects. In conducting the audit, Commission Staff was able to verify the  
14 closing of the capital spending. The projects that are included in the filing are  
15 scheduled to be completed in the fall of 2019, and only projects that will be used  
16 and useful before rates go in effect in this proceeding have been included.

17 **Q. DOES THE COMPANY'S RATE FILING REFLECT ADJUSTMENTS TO**  
18 **THE PER BOOK AMOUNTS OF ACCUMULATED DEFERRED INCOME**  
19 **TAX ("ADIT") (RB-2)?**

20 A. Yes. Adjustments to ADIT are designated as RB-2, appear in the Schedule 14A,  
21 and are calculated on WP 14-4 and WP 14-4-1.

1 **Q. WERE ANY ITEMS EXCLUDED FOR RATEMAKING PURPOSES?**

2 A. Yes. An adjustment was made to remove ADIT related to over/under recovery of  
3 gas cost. Additionally, the adjustments exclude book to tax differences in Shared  
4 Services that relate to jurisdictions other than Kansas.

5 **Q. WERE ADJUSTMENTS MADE TO ANY OTHER RATE BASE ITEMS?**

6 A. No. Amounts for Storage Gas, Prepayments, Customer Advances for Construction  
7 and Customer Deposits are included at the per book 13-month average balances.  
8 Cash Working Capital is included at a zero balance.

9 **Q. PLEASE DESCRIBE THE ALLOCATION OF SHARED SERVICES AND**  
10 **GENERAL OFFICE RATE BASE ITEMS TO KANSAS.**

11 A. The Company does not allocate rate base items in its books and records. Therefore,  
12 rate base items that are booked at the shared services and the business unit general  
13 office levels must be separately allocated to include the amounts applicable to  
14 Kansas in rate base. In this filing, rate base items were allocated using the  
15 allocation factors shown in Section 12. The development of these factors is the  
16 same as that discussed in the Company's Cost Allocation Manual and in testimony  
17 of Company witness Laura K. Gillham.

18 **Q. WHAT ARE THE ALLOCATION FACTORS UTILIZED FOR EXPENSE**  
19 **ADJUSTMENTS TO KANSAS?**

20 A. Fiscal year 2019 allocation factors (based on September 30, 2018 data) were  
21 utilized in this filing to allocate expense items. The allocation factors can be found  
22 on Schedule 12 of the filing, and the methods utilized in the development of these  
23 factors are discussed as part of the Cost Allocation Manual attached to Company

1 Witness Laura K. Gillham's testimony as Exhibit LKG-1. The filing is consistent  
2 with the Shared Services General Office using a composite factor and the Shared  
3 Services Customer Support using a customer factor

4 **V. OPERATION AND MAINTENANCE EXPENSES (IS-1, IS-2, IS-3, IS-4, IS-5,**  
5 **IS-6, IS-7, IS-8 AND IS-9), DEPRECIATION, (IS-10), OTHER TAXES (IS-11,**  
6 **IS-12, AND IS-13), NORMALIZATION OF INCOME TAXES (IS-14) AND**  
7 **INTEREST ON CUSTOMER DEPOSITS (IS-15)**

8 **Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO OPERATION**  
9 **AND MAINTENANCE ("O&M") EXPENSE?**

10 A. Yes. Nine (9) adjustments were made to O&M expense and are listed as follows:

- 11 1. Labor Expense Adjustment (IS-1)
- 12 2. Benefits Expense Adjustment (IS-2)
- 13 3. Charitable Donations Adjustment (IS-3)
- 14 4. Rate Case Expense Adjustment (IS-4)
- 15 5. Miscellaneous Expense Adjustment (IS-5)
- 16 6. Pension/Post Retirement Benefits Adjustment (IS-6)
- 17 7. Advertising Expense Adjustment (IS-7)
- 18 8. Chamber of Commerce Dues Adjustment (IS-8)
- 19 9. AGA Dues Adjustment (IS-9)

20 **Q. PLEASE DESCRIBE THE LABOR EXPENSE ADJUSTMENT (IS-1).**

21 A. This adjustment to labor expense reflects the annualization of the average merit  
22 increase of 3.0 percent implemented on October 1, 2018, as applied to the total  
23 gross labor recorded on the books and records for the test year. The calculation to  
24 include the merit increase, as shown in Workpaper ("WP") WP 9-2, takes into  
25 account that one-half of the fiscal year is included in the test year; accordingly, 1.5

1 percent is used in the labor adjustment calculation, instead of the full 3.0 percent.  
2 In addition, a three year average expense rate is applied to the adjusted gross labor  
3 calculation to reflect the portion of the adjusted gross labor related to O&M  
4 expense. The calculation of the labor expense adjustment is included in the rate  
5 case application as Adjustment IS-1.

6 **Q. PLEASE DESCRIBE THE BENEFITS EXPENSE ADJUSTMENT (IS-2).**

7 A. Benefit costs typically correspond to the amount of labor expense the Company  
8 incurs. Therefore, a benefits adjustment was made in order to reflect this  
9 relationship between benefits and the adjusted labor in IS-1. This adjustment is  
10 calculated by multiplying the 2019 budgeted benefits percentage, located on WP 9-  
11 3, by the labor expense adjustment (IS-1). The budgeted rates are based on actuarial  
12 reports prepared by Willis Towers Watson, along with insurance information  
13 received by the Company's Human Resources Department. The benefits  
14 adjustment calculation is set forth in WP 9-3 and is included in the rate case  
15 application as Adjustment IS-2.

16 **Q. PLEASE EXPLAIN THE CHARITABLE DONATIONS ADJUSTMENT (IS-  
17 3).**

18 A. The charitable contributions adjustment is shown in detail on WP 9-4 and is  
19 included in the rate case application as Adjustment IS-3. The Company is seeking  
20 to recover 50% of the total charitable contributions, excluding any expenditure for  
21 civic or political activities and sporting events, in accordance with K.S.A. 66-1,206.

1 **Q. PLEASE EXPLAIN THE RATE CASE EXPENSE ADJUSTMENT (IS-4).**

2 A. WP 9-5 reflects an adjustment to remove all unamortized rate case expenses from  
3 prior rate cases. This adjustment has been made pursuant to the Order Approving  
4 in Part; Denying in Part Unanimous Settlement Agreement in the 079 Docket.  
5 Adjustment IS-4 reflects this total adjustment. In addition, the Company is seeking  
6 to recover the expenses it has incurred or will incur relating to the preparation and  
7 filing of this rate case. A calculation of those estimated expenses is shown in WP  
8 9-5-1. I will address the proposed method of recovery for these expenses later in  
9 my testimony.

10 **Q. PLEASE DESCRIBE THE MISCELLANEOUS EXPENSE ADJUSTMENT**  
11 **(IS-5).**

12 A. Atmos Energy reviewed certain expense items recorded within the test year  
13 including expenses reports, miscellaneous vendor charges, and other Shared  
14 Services and Division expenses and elected to remove certain items from the filing  
15 of which the Company is not seeking recovery in this case. The amortization  
16 expense resulting from pension and other post-retirement benefits recovered in the  
17 Company's pension tracker has also been removed in this adjustment. The  
18 adjustment for these items is IS-5 in the rate case application and is shown on WP  
19 9-6.

1 **Q. PLEASE EXPLAIN THE ADJUSTMENT FOR THE AMORTIZATION OF**  
2 **ATMOS ENERGY’S DEFERRED PENSION AND OTHER POST**  
3 **EMPLOYMENT BENEFITS (“OPEB”) EXPENSE (IS-6).**

4 A. As a result of the Settlement and Commission Order issued in Atmos Energy's  
5 previous Kansas rate case (079 Docket), Atmos Energy was required to defer, as a  
6 regulatory asset or liability as the case may be, the difference between the level of  
7 pension, post retirement, and post-employment costs incurred under GAAP and the  
8 amount of such expenses recovered through base rates with no carrying costs  
9 permitted. Under the Settlement in the 079 Docket, a three year amortization was  
10 established for amortization of costs.

11 **Q. HOW WAS THE ADJUSTMENT CALCULATED?**

12 A. WP 9-8-1 (for direct) and WP 9-8-2 (for shared services) each compare the amount  
13 of expense included in base rates currently for Pension and OPEB expense to the  
14 actual cost incurred since the test period ending September 2015 resulting in the  
15 implementation of rates in March 2016. In these workpapers, the Company has  
16 included periods through March 2020, as this is the expected date of rate  
17 implementation for this case.

18 **Q. HOW WAS THE AMORTIZATION PERIOD, SHOWN ON WP 9-8-1 AND**  
19 **WP 9-8-2, OF THREE YEARS DETERMINED?**

20 A. The three-year amortization period falls within the time frame allowed by the  
21 Commission and is consistent with the 079 Docket. Since the utility is not allowed  
22 to earn a return on the deferred amount, a period shorter than five years should be  
23 used.

1 **Q. IN ADDITION TO APPROVING THE INCLUSION OF THIS**  
2 **AMORTIZATION IN THE REVENUE REQUIREMENT MODEL, IS**  
3 **ATMOS ENERGY SEEKING ANY FURTHER DIRECTIVE FROM THE**  
4 **COMMISSION WITH REGARDS TO FUTURE DEFERALS?**

5 A. Yes. The level of Pension and OPEB expense ultimately included in the approved  
6 base rates in this proceeding should be identified, similar to Ad Valorem expense  
7 being identified in prior Atmos Energy proceedings, so that the parties are clear as  
8 to what expense level is to be used in calculating future deferral amounts.

9 **Q. IS ATMOS ENERGY SEEKING ANY ADDITIONAL DIRECTIVE FROM**  
10 **THE COMMISSION WITH REGARDS TO FUTURE DEFERRALS?**

11 A. Yes. The Company is proposing that the deferral for the regulatory asset or liability  
12 should include the difference between the pension, post retirement and post-  
13 employment costs incurred at the Colorado/Kansas General Office (division 030)  
14 and the amount recovered through base rates. The Company's pension tracker  
15 currently includes Kansas direct and Shared Services expenses. The Company is  
16 proposing to establish the benchmark for tracking division 030 expenses in the next  
17 rate case.

18 **Q. PLEASE DESCRIBE THE ADVERTISING EXPENSE ADJUSTMENT (IS-**  
19 **7).**

20 A. The Company has elected to eliminate advertising and promotional expenses which  
21 are neither customer assistance nor safety-related. This adjustment, as detailed in

1 WP 9-9, is in accordance with KCC Staff recommendation in the 320 Docket.<sup>3</sup>  
2 Adjustment IS-7 effects the removal of these expenditures.

3 **Q. PLEASE DESCRIBE THE CHAMBER OF COMMERCE DUES**  
4 **ADJUSTMENT (IS-8).**

5 A. The Chamber of Commerce dues adjustment is shown in detail on WP 9-10 and is  
6 included in the rate case application as Adjustment IS-8. This adjustment excludes  
7 fifty percent of Chamber of Commerce dues paid during the test year, is in  
8 accordance with K.S.A. 66-1,206 and with KCC Staff recommendation per the 320  
9 Docket.<sup>4</sup>

10 **Q. PLEASE DESCRIBE THE AGA DUES ADJUSTMENT (IS-9).**

11 A. The AGA dues paid by Atmos Energy are adjusted to remove the portion of the  
12 payment that relates to advertising and public affairs. The calculation of the  
13 adjustment is shown on WP 9-11 and is included in the rate case application as  
14 Adjustment IS-9.

15 **Q. PLEASE DESCRIBE THE ALLOCATION FACTORS UTILIZED FOR**  
16 **EXPENSE ADJUSTMENTS TO KANSAS.**

17 A. 2019 allocation factors were utilized in this filing to allocate expense items. The  
18 allocation factors can be found on Schedule 12 of the filing, and the methods  
19 utilized in the development of these factors are discussed as part of the Cost  
20 Allocation Manual (“CAM”) in Company witness Laura K. Gillham’s testimony.

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<sup>3</sup> Docket No. 14-ATMG-320-RTS, KCC Direct Testimony of Katie L. Figgs, May 20, 2014, page 8, lines 1-9.

<sup>4</sup> Docket No. 14-ATMG-320-RTS, KCC Direct Testimony of Katie L. Figgs, May 20, 2014, Page 7, lines 15-20.



1 The filing is consistent with Shared Services General Office using a composite  
2 factor and the Customer Service Center using a customer factor.

3 **Q. PLEASE DESCRIBE THE COMPANY'S CALCULATION OF**  
4 **DEPRECIATION EXPENSE (IS-10).**

5 A. This adjustment, designated as IS-10, recalculates depreciation expense utilizing  
6 the depreciation rates approved in the Atmos Energy 079 Docket<sup>5</sup> for the  
7 Colorado/Kansas General Office and the Shared Services division assets. The  
8 Company is proposing new depreciation rates for its Kansas Direct Division. All  
9 depreciation rates were applied to the end-of-test-year balances of plant in service  
10 by plant account, thereby normalizing depreciation expense to be consistent with  
11 the level of plant in service at the end of the test year.

12 **Q. HOW IS THE COMPANY PROPOSING TO CHANGE THE**  
13 **DEPRECIATION RATES OF THE KANSAS DIRECT DIVISION?**

14 A. Company witness, Mr. Ned W. Allis sponsors the depreciation studies which  
15 provide the support for the new Kansas Direct rates the Company is proposing.  
16 These new rates were applied to the end-of-test-year balances of plant in service by  
17 plant account<sup>6</sup>, thereby normalizing depreciation expense to be consistent with the  
18 level of plant in service at the end of the test year.

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<sup>5</sup> Docket No. 16-ATMG-079-RTS Order Approving in Part; Denying in Part Unanimous Settlement Agreement, Appendix A.

<sup>6</sup> Mr. Allis is proposing two new utility plant accounts, 37603 - Anode and 37604 - Leak Clamp, and depreciation rates for these accounts.

1 **Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO TAXES**  
2 **OTHER THAN INCOME TAXES?**

3 A. Yes. There are three (3) adjustments being proposed to taxes other than income  
4 taxes. One adjustment (IS-11) is made to Ad Valorem taxes, one adjustment (IS-12)  
5 is related to payroll taxes, and one (IS-13) is related to the KCC assessment.

6 **Q. PLEASE DESCRIBE THE AD VALOREM TAX ADJUSTMENT (IS-11).**

7 A. WP 11-2 compares the test period Ad Valorem tax expense to the most recent Ad  
8 Valorem tax assessments. The 2018 Ad Valorem assessments were utilized in  
9 Docket number 19-ATMG-228-TAR in the calculation of the Company's 2019 Ad  
10 Valorem surcharge calculation. As discussed in the testimony of Company witness  
11 Mr. Gary Smith, Other Revenue is adjusted in the rate design step to reflect the fact  
12 that the level of Ad Valorem Expense will be recovered in base rates and future Ad  
13 Valorem surcharges will have a new base established for reconciliation purposes.

14 **Q. WHY IS IT NECESSARY TO ADJUST TO THE LEVEL OF AD VALOREM**  
15 **TAX ASSESSED IN 2018?**

16 A. In the Company's previous five rate cases, filed in September 2007, January 2010,  
17 January 2012, January 2014 and August 2015 the latest Ad Valorem information  
18 was utilized in arriving at the final base rates.

19 **Q. IS THE COMPANY'S ADJUSTMENT CONSISTENT WITH STAFF'S**  
20 **ADJUSTMENT IN THE 2007 DOCKET AND COMPANY'S ADJUSTMENT**  
21 **IN THE SUBSEQUENT DOCKETS?**

22 A. Yes.

1 **Q. PLEASE DESCRIBE THE PAYROLL TAX ADJUSTMENT (IS-12).**

2 A. A payroll tax adjustment is made in conjunction with the previously discussed labor  
3 adjustment. This adjustment is comprised of applying the budgeted payroll tax rate  
4 of 7.65% to the direct Kansas pro-forma labor expense less the per book direct  
5 Kansas payroll tax. This is reflected in Adjustment IS-12 in the rate case  
6 application and is shown on WP 11-4.

7 **Q. PLEASE DESCRIBE THE KCCA ADJUSTMENT (IS-13).**

8 A. The KCCA adjustment is a known and measurable adjustment to normalize to the  
9 actual amounts paid by the Company to the KCC as of the Commission's new fiscal  
10 year ended June 30, 2019. This is reflected in Adjustment IS-13 in the rate case  
11 application and is shown on WP 11-5.

12 **Q. PLEASE DESCRIBE THE INCOME TAX ADJUSTMENT (IS-14).**

13 A. Section 11B of the Company's filing computes and synchronizes income tax  
14 expense, at statutory rates, based on the accumulation of the other revenue  
15 requirement items.

16 **Q. PLEASE DESCRIBE THE INTEREST ON CUSTOMER DEPOSITS  
17 ADJUSTMENT (IS-15).**

18 A. Section 14C of the Company's filing utilizes the average customer deposit amount  
19 included in this filing (shown in Section 14A) and normalizes the customer deposit  
20 interest rate to the 2.72% rate approved by the Commission in Docket number 98-  
21 GIMX-348-GIV on December 13, 2018.

1                                   **VI.    IMPACTS OF TAX CUTS AND JOBS ACT**

2   **Q.    WHAT IMPACTS FROM THE TAX CUTS AND JOBS ACT HAVE BEEN**  
3   **REFLECTED IN THIS FILING?**

4   A.    The Tax Cuts and Jobs Act was enacted on December 22, 2017. As a result, the  
5   corporate federal statutory tax rate was reduced from 35% to 21%. The lower  
6   federal statutory rate of 21% has been reflected in the calculation of Tax Expense,  
7   as well as in the calculation of ADIT. In addition, a regulatory liability for excess  
8   accumulated deferred income tax (“EDIT”) was established and has been included  
9   as an adjustment to rate base in this filing.

10 **Q.    PLEASE DESCRIBE THE REGULATORY LIABILITY FOR EDIT AND**  
11 **WHY IT IS AN ADJUSTMENT TO RATE BASE.**

12 A.    Accelerated tax deductions result in the deferral of income tax expense. This  
13 deferral is recorded on the Company’s books and records as a net ADIT liability.  
14 This liability is recorded at the enacted tax rates in effect and represents the amount  
15 that the Company will pay the federal government in the future when these taxes  
16 become due. As a result of the reduction in federal corporate tax rates, the Company  
17 was required to revalue the ADIT on its books at the new statutory rate. The  
18 reduction in the federal statutory rate reduces the future tax liabilities for which the  
19 Company has deferred tax liabilities recorded. In other words, the amount recorded  
20 on the Company’s books prior to the tax law change was in excess of what the  
21 Company now expects to pay the government in the future. The Company  
22 established a regulatory liability for the excess deferred taxes associated with items  
23 in rate base for Kansas and the other jurisdictions in which it operates. The

1 Company is required to refund this regulatory liability back to customers in a  
2 manner that conforms with the Internal Revenue Code and the regulators in each  
3 jurisdiction. The Company recognized a tax benefit in the first quarter of its fiscal  
4 year ended September 30, 2018 for the excess deferred taxes associated with items  
5 not included in rate base.

6 **Q. WHAT IS THE AMOUNT OF THE EDIT RESULTING FROM KANSAS**  
7 **OPERATIONS THAT HAS BEEN INCLUDED IN THIS FILING?**

8 A. The EDIT balance, recorded in FERC account 253, Subaccount 27909, is  
9 \$18,681,171 at March 31, 2019. Please refer to Section 14, WP 14-4-2 in the  
10 Company's filing.

11 **Q. HOW IS THE COMPANY PROPOSING TO AMORTIZE EDIT IN THIS**  
12 **FILING?**

13 A. The Company is proposing to flow back all EDIT amounts utilizing the Reverse  
14 South Georgia Method ("RSGM"). Consistent with the terms of the settlement  
15 agreement in 18-GIMX-248-GIV, the Company has proposed to amortize its plant-  
16 related EDIT using the RSGM. The EDIT asset for net operating loss carryforwards  
17 ("NOLC") is included as plant-related EDIT since the net operating loss  
18 carryforwards are attributable to accelerated tax and bonus depreciation and  
19 therefore protected by the normalization provisions. In addition, the Company is  
20 proposing to flow back non-plant-related EDIT over the RSGM period. Non-plant-  
21 related EDIT represents a \$2,381,712 regulatory asset that net with the plant-related  
22 EDIT results in an overall regulatory liability of \$18.7 million regulatory liability  
23 for EDIT as described above.

1 **Q. PLEASE DESCRIBE THE RSG METHOD OF AMORTIZING EXCESS**  
2 **DEFERRED TAX LIABILITIES.**

3 A. RSGM amortizes the excess deferred tax liability back over the life of the  
4 underlying property that gave rise to the excess. Under this method a taxpayer  
5 computes the excess tax reserve on all public utility property included in the plant  
6 account and amortizes such reserve on the basis of the weighted average life or the  
7 composite rate used to compute depreciation for regulatory purposes. This method  
8 reduces the excess tax reserve ratably over the remaining regulatory life of the  
9 property.

10 **Q. WHAT IS THE RSGM AMORTIZATION PERIOD FOR THE COMPANY'S**  
11 **KANSAS ASSETS?**

12 A. The amortization period is 21 years.

13 **Q. WHAT AMOUNT OF EDIT AMORTIZATION HAS THE COMPANY**  
14 **PROPOSED TO INCLUDE IN THE REVENUE REQUIREMENT?**

15 A. The amount of EDIT amortization included in the Company's proposed revenue  
16 requirement is (\$889,580). This amount is calculated by dividing the regulatory  
17 liability for EDIT (\$18.7 million) by 21 years. Please refer to Section 3, Column  
18 (c), Line 37 in the Company's filing.

19 **Q. IS THIS AMORTIZATION AMOUNT AN ESTIMATE?**

20 A. This amortization amount is estimated. The regulatory liability for EDIT was  
21 calculated at the Company's fiscal year end at September 30, 2018. The Company  
22 will record true-ups after the filing of its tax return in July 2019. These true-ups

1 will be recorded on the September 2019 books. At this time the regulatory liability  
2 for EDIT will be final and a final amortization amount can be calculated.

3 **VII. RATE CASE EXPENSES**

4 **Q. PLEASE EXPLAIN WHY IT IS APPROPRIATE TO RECOVER RATE**  
5 **CASE EXPENSES.**

6 A. It is a well settled principle of ratemaking that prudently incurred rate case expenses  
7 are operating expenses incurred by a utility and therefore recoverable. In *Kan.*  
8 *Indus. Consumers Group, Inc. v. State Corp. Comm'n*, 36 Kan. Ct. App. 2d 83, 111  
9 (2006), the Kansas Court of Appeals held that “[t]he general rule is that prudently  
10 incurred rate case expenses are among the reasonably necessary expenses that a  
11 public utility is entitled to recover in a rate-making proceeding.” The Company has  
12 included in this filing a detailed estimate of expenses anticipated in this proceeding.  
13 The Company’s expenses include the cost of professional services to support the  
14 new depreciation rates, the requested return on equity and the proposed class cost  
15 of service, all of which are reasonable and necessary expenses to support this  
16 statement of intent filing. Professional services are reasonable and necessary  
17 expenses that are required due to the complexity and specialized nature of the  
18 testimony required to support the Company’s rate request. Atmos Energy’s  
19 employee expenses are reasonable and necessary and are related to the travel,  
20 lodging and meals of employees to travel to prepare for the Commission hearing  
21 and to attend the hearing before the KCC. These costs are required in order for the  
22 Company to support this rate proceeding and are normal operating costs for a  
23 regulated utility.

1 **Q. WHY IS THE COMPANY PROPOSING A SURCHARGE TO RECOVER**  
2 **THE RATE CASE EXPENSES INCURRED IN THE CURRENT DOCKET?**

3 A. The Company is proposing a one-time surcharge to recover rate case expenses to  
4 simplify the rate case expense recovery process. The surcharge would include the  
5 rate case expenses prudently incurred in the current docket. The frequency of the  
6 Company's recent rate case filings versus the time-frame allowed by the KCC to  
7 recover the rate case expenses have led the Company to the conclusion that  
8 separating the rate case expenses from the rate case dynamics would allow  
9 prudently incurred rate case expenses to be fully recovered.

10 **Q. PLEASE EXPLAIN THE METHODOLOGY PROPOSED BY THE**  
11 **COMPANY TO RECOVER RATE CASE EXPENSES IN THE CURRENT**  
12 **PROCEEDING.**

13 A. Consistent with the Order Approving in Part; Denying in Part Unanimous  
14 Settlement Agreement in Docket 079, the Company has excluded from base rates  
15 the unamortized rate case expenses from previous dockets (Please see IS-4). The  
16 Company proposes to calculate a separate surcharge to be added to the facilities  
17 charge for a one year period in order to recover the estimate of the rate case  
18 expenses to be incurred in this proceeding. The total rate case expenses incurred  
19 by all parties (i.e., Staff, CURB and Atmos Energy) would be divided by the total  
20 number of annual bills for all customers to derive a monthly surcharge amount per  
21 customer. The resulting surcharge would be added to the monthly facilities charge  
22 for a period of no longer than one year, after which the surcharge would be removed  
23 from the facilities charge. The Company would file new tariffs at the time the



1 surcharge has been eliminated (one year or less from the date of implementation of  
2 rates from this proceeding). The rate case expense estimate has been included in  
3 the proposed notice to customers. Please see WP 9-5-1 for the calculation of the  
4 estimated surcharge by class.

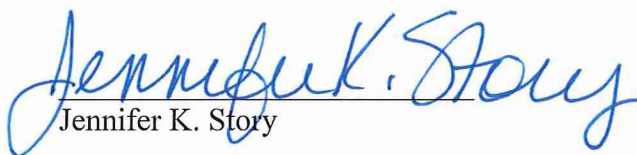
5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes.

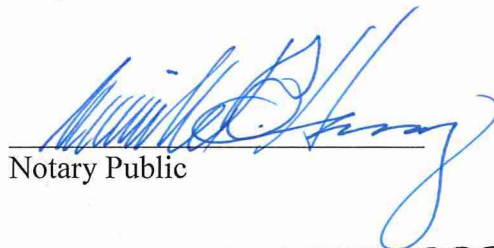
**VERIFICATION**

**STATE OF TEXAS**            )  
  )  
**COUNTY OF DALLAS**        )

Jennifer K. Story, being duly sworn upon her oath, deposes and states that she is Director Regulatory Reporting for Atmos Energy Corporation; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information and belief.

  
Jennifer K. Story

Subscribed and sworn before me this 24<sup>th</sup> day of June, 2019.

  
Notary Public

My appointment expires: 9/1/2020

