**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	**)**	**23-ATMG-359-RTS**
NATURAL GAS RATES	**)**	

DIRECT TESTIMONY OF WILLIAM D. MATTHEWS

SEPTEMBER 9, 2022

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William D. Matthews. My business address is 5420 LBJ Freeway, Suite 1600, Dallas, TX, 75240.

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

A. I am Manager of Rates and Regulatory Affairs (Shared Services) for Atmos Energy Corporation ("Atmos Energy" or "Company"). I am currently responsible for managing rate proceedings primarily filed with state regulatory bodies on behalf of the Company. My responsibilities include execution of applications for changes to rates and tariffs as part of traditional rate cases, tariff language change proposals, and annual rate making mechanisms that the Company files in the eight states in which it has regulated operations.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I hold undergraduate degrees in accounting and finance from Texas A & M University. I started my career with Atmos Energy in 2005 as a Business Planning Analyst. As a Business Planning Analyst, and positions of increasing responsibility within Business Planning & Analysis, I have worked on the annual planning process focusing on customer analysis, integrating upcoming filings within the Company's operating plan and performed various special analysis and projects for the Vice President of Strategic Planning. I was named Manager of Rates and Regulatory Affairs in October 2020.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS CORPORATION COMMISSION ("COMMISSION" OR "KCC") OR OTHER REGULATORY ENTITIES?

A. I have never submitted filed testimony before this Commission, though I have submitted direct and rebuttal testimony before the Tennessee Public Utility Commission in Dockets No. 21-00019 and 22-00010 in support of the Company's annual formula rate tariff.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony has multiple purposes: (1) to present the Company's revenue requirements model, which supports the increase in base rate revenues the Company is proposing in this proceeding, and address and sponsor the Commission's minimum filing requirements ("MFRs") schedules contained in the rate case application; (2) to describe and support the Company's proposed adjustments to the revenue requirement related to rate base; (3) to support and describe various adjustments to the revenue requirement related to operations and maintenance ("O&M") expense, ad valorem taxes, interest on customer deposits, normalization of income taxes and pension/post-retirement benefits expense; (4) to support the calculation of depreciation rates at year end plant; and (5) to describe and support the Company's position regarding Accumulated Deferred Income Taxes ("ADIT"), including the regulatory liabilities for Excess Accumulated Deferred Income Taxes ("EDIT"), State Income Deferred Tax Liability and related amortization.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?

A. No.

Q. WHAT ARE THE PRIMARY DRIVERS OF THE PROPOSED RATE INCREASE?

A. The Company has invested over $56. 9 million in plant since the previous case. Net of $35.6 million in rate base currently recovered through GSRS rates and other rate base changes results in a revenue requirement deficiency of $3.5 million. O&M items since the final order in the previous case have increased $5.7 million. This increase is driven primarily by labor (internal and contract), associated benefits, as well as increases to uncollectable accounts expense. The Company's proposed rate of return of 8.18% results in an increase in the revenue requirement of $4.7 million. These increases are off-set by an increase in normalized revenues at present rates as well as increases to excess deferred income tax amortizations.

III. REVENUE REQUIREMENT MODEL

Q. WHAT IS THE TEST PERIOD USED IN DETERMINING THE REVENUE DEFICIENCY?

A. The test period in this case is the 12 months ended March 31, 2022.

Q. WHAT IS THE LEVEL OF THE COMPANY'S PROPOSED REVENUE INCREASE?

A. The Company is requesting an overall revenue increase of $8.3 million[1] in base rates net of the Company's proposal to shift recovery of the current Gas System Reliability Surcharge Rider ("GSRS") to base rates and reset to zero and adjust the

[1] $ 8.3 million revenue increase represents the net revenue increase ($11.8 million total revenue increase, offset by $3.5 million GSRS revenue).

level of Ad Valorem Tax Surcharge Rider ("AVTS") expense for future AVTS reconciliation filings. The Company's proposal to change base rates excludes investment made and recovered through the System Integrity Program ("SIP") Tariff.

Q. PLEASE DESCRIBE HOW THE KANSAS MFRs ARE MET BY THE COMPANY REVENUE REQUIREMENT MODEL.

A. The Company utilized the schedule numbering scheme required under K.A.R. § 82-1-231. The Company addressed each requirement in the schedules accompanying the rate case application and testimony filed in this matter.

Q. PLEASE DESCRIBE EACH OF THE SCHEDULES SUPPORTING THE CALCULATION OF THE COST OF SERVICE AND REVENUE DEFICIENCY.

A. **Section 3** Summary of Rate Base, Operating Income and Rate of Return. This section accumulates the results of the various schedules described in the remainder of this answer to calculate a Kansas Revenue Requirement of $74.9 million and a Kansas annual Revenue Deficiency of $8.3 million in base rates[2]. These results reflect Kansas direct operations, plus allocations from the Company's administrative offices serving Kansas (Shared Services General Office, Shared Services Customer Support, and Colorado-Kansas General Office).

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

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[2] $8.3 million represents the net revenue deficiency ($11.8 million gross revenue deficiency, offset by $3.5 million GSRS revenue).

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

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

Section 7 Capital and Cost of Money. This section provides the Company's proposed capital structure, cost of long-term debt, return on equity and computes an overall proposed return on rate base. The proposed capital structure, cost of debt and the requested return on equity is supported by Company witness, Mr. Matthew Howard.

Section 9 Test Year and Pro-forma Income Statements. Within Section 9, Test Year and Pro-forma Income Statements, the section provides the Company's proposed O&M expense. The proposed O&M and pension expense, direct and allocated, is supported later in my testimony.

Section 10 Depreciation and Amortization Expense. This section provides depreciation and amortization expense which is associated with the Company's requested gross plant. The Company is not requesting updated direct depreciation rates which were last updated in Docket No. 19-ATMG-525-RTS ("525 Docket"). New depreciation rates for the Colorado/Kansas General Office and the Shared Services Divisions, General Office and Customer Support are being requested in this proceeding and are supported by the studies prepared by Company witness, Mr. Dane Watson.

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

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

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

Section 17 Summary of Revenue at Present and Proposed Rates. This section computes the normalized revenue at present and proposed rates for each of the Company's tariffs. This section, containing adjustment IS-19, is supported by Company witness, Mr. Gary Smith.

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

IV. RATE BASE ADJUSTMENTS (RB-1, RB-2, RB-3, RB-4, RB-5, RB-6 and RB-7)

Q. PLEASE DESCRIBE THE PLANT IN SERVICE AND ACCUMULATED RESERVE ADJUSTMENT IN RB-1 AND RB-2?

A. The Company has made investment that is recovered through its System Integrity Program ("SIP") that is recovered through a separate tariff (Section X) that we are not proposing to roll into base rates. Adjustment RB-1 removes SIP plant in service to remove plant additions related to the Company's SIP mechanism. In addition, adjustment RB-2 removes the calculated accumulated reserve also related to Company's SIP mechanism.

Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT WERE MADE TO CONSTRUCTION WORK IN PROGRESS ("CWIP") (RB-3 and RB-4)?

A. Two items are included within the adjustment RB-3 made to CWIP. The first item is consistent with prior cases and removes the accumulated cost of long-term projects from CWIP. The second item is to include in CWIP spending in the amount that, in addition to the balances at the end of the period, will be spent and closed in the Company's September 2022 books. This adjustment, designated as RB-3, is shown on WP 14-1. Adjustment RB-4, also shown on WP 14-1, removes all CWIP related to SIP projects.

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

A. Yes. K.S.A. 66-128 (2) (A) permits projects completed within one year from the end of the test period to be included in rate base. The Company anticipates that these projects will close prior to the end of fall 2022 and can be audited and confirmed to be completed by KCC Staff and CURB during their audit of this rate case.

Q. HOW WOULD THE COMPANY PROPOSE UPDATING THE FILING ONCE ACTUAL AMOUNTS ARE CLOSED IN THE SEPTEMBER 2022 BOOKS AND RECORDS SO THAT KCC STAFF AND CURB WILL BE ABLE TO CONFIRM THE PROJECTS HAVE BEEN COMPLETED?

A. The Company would use the same method used in its 2012, 2014, 2016 and 2019 Kansas rate cases (Docket No. 12-ATMG-564-RTS, Docket, Docket No. 14-ATMG-320-RTS ("320 Docket"), 079 Docket, and 525 Docket) to update the KCC Staff and CURB. The Company will track the costs and does not anticipate that actual costs will vary significantly from the amount included within the filing. After the September books close in October 2022, the Company will provide updated Schedules to KCC Staff and CURB to reflect the actual amounts closed to plant along with any associated retirements.

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

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

Q. IS THE INCLUSION OF THESE ADDITIONAL AMOUNTS THROUGH SEPTEMBER 2022 CONSISTENT WITH THE METHODOLOGY USED IN THE COMPANY'S PREVIOUS RATE CASE?

A. Yes. This approach is consistent with the Company's filing in its most recent rate case, in which the Company included additional capital spending related to specific capital projects. In conducting the audit, Commission Staff was able to verify the closing of the capital spending. The projects that are included in the filing are scheduled to be completed in the fall of 2022, and only projects that will be used and useful before rates go in effect in this proceeding have been included.

Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO REGULATORY LIABILITES (RB-5)?

A. In anticipation of consistent treatment with prior cases to update investment, accumulated reserve for depreciation and accumulated deferred income taxes, the regulatory liability related to Excess Deferred Income Taxes ("EDIT") is adjusted to the September 2022 balance as well as a corresponding adjustment to ADIT on WP 14-4-3.

Q. DOES THE COMPANY'S RATE FILING REFLECT ADJUSTMENTS TO THE PER BOOK AMOUNTS OF ACCUMULATED DEFERRED INCOME TAX ("ADIT") (RB-6 and RB-7)?

A. Yes. Adjustments to ADIT are designated as RB-6, appear in the Schedule 14A, and are calculated on WP 14-4 and WP 14-4-1. Adjustment RB-7, calculated on WP 14-4-5, adjusts ADIT to remove the impact of SIP investment.

Q. WHY WERE THESE ITEMS EXCLUDED FOR RATEMAKING PURPOSES?

A. These adjustments to ADIT related to over/under recovery of gas cost and to both Shared Services and Kansas Direct ADIT to remove the impact of Winter Storm URI on ADIT. Additionally, the adjustments exclude book to tax differences in Shared Services that relate to jurisdictions other than Kansas.

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

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

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

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

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

A. Fiscal year 2022 allocation factors (based on September 30, 2021 data) were utilized in this filing to allocate expense items. The allocation factors can be found on Schedule 12 of the filing, and the methods utilized in the development of these factors are discussed as part of the Cost Allocation Manual attached to Company Witness Michelle Faulk's testimony as Exhibit MHF-1. The filing is consistent with the Shared Services General Office using a composite factor and Shared Services Customer Support using a customer factor

V. OPERATION AND MAINTENANCE EXPENSES (IS-1, IS-2, IS-3, IS-4, IS-5, IS-6, IS-7, IS-8, IS-9, IS-10 AND IS-11), DEPRECIATION, (IS-12 AND IS-13), OTHER TAXES (IS-14, IS-15, AND IS-16), NORMALIZATION OF INCOME TAXES (IS-17) AND INTEREST ON CUSTOMER DEPOSITS (IS-18)

Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO O&M EXPENSES?

A. Yes. Eleven (11) adjustments were made to O&M expenses and are listed as follows:

1. Labor Expense Adjustment (IS-1)
2. Benefits Expense Adjustment (IS-2)
3. Charitable Donations Adjustment (IS-3)
4. Rate Case Expense Adjustment (IS-4)
5. Miscellaneous Expense Adjustment (IS-5)
6. Pension/Post Retirement Benefits Adjustment (IS-6)
7. Advertising Expense Adjustment (IS-7)
8. Chamber of Commerce Dues Adjustment (IS-8)
9. AGA Dues Adjustment (IS-9)
10. Incentive Compensation Adjustment (IS-10)
11. Bad Debt Expense Adjustment (IS-11)

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

A. This adjustment to labor expense reflects the annualization of the average merit increase of 3.0 percent implemented on October 1, 2021, as applied to the total gross labor recorded on the books and records for the test year. The calculation to include the merit increase, as shown in Workpaper ("WP") WP 9-2, takes into account that one-half of the fiscal year is included in the test year; accordingly, 1.5 percent is used in the labor adjustment calculation, instead of the full 3.0 percent. In addition, a three year average expense rate is applied to the adjusted gross labor calculation to reflect the portion of the adjusted gross labor related to O&M expense. The calculation of the labor expense adjustment is included in the rate case application as Adjustment IS-1.

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

A. Benefit costs typically correspond to the amount of labor expense the Company incurs. Therefore, a benefits adjustment was made in order to reflect this relationship between benefits and the adjusted labor in IS-1. This adjustment is calculated by multiplying the 2022 budgeted benefits percentage, located on WP 9-3, by the labor expense adjustment (IS-1). The budgeted rates are based on actuarial reports prepared by Willis Towers Watson, along with insurance information received by the Company's Human Resources Department. The benefits adjustment calculation is set forth in WP 9-3 and is included in the rate case application as Adjustment IS-2.

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

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

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

A. WP 9-5 reflects an adjustment to remove all unamortized rate case expenses from prior rate cases. In addition, the Company is seeking to recover the expenses it has incurred or will incur relating to the preparation and filing of this rate case through a 3-year amortization in base rates. A calculation of those estimated expenses is shown in WP 9-5-1.

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

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

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR THE AMORTIZATION OF ATMOS ENERGY'S DEFERRED PENSION AND OTHER POST EMPLOYMENT BENEFITS ("OPEB") EXPENSE (IS-6).

A. As a result of previous Commission orders issued in Atmos Energy's rate cases, Atmos Energy was required to defer, as a regulatory asset or liability as the case may be, the difference between the level of pension, post retirement, and post-employment costs incurred under GAAP and the amount of such expenses recovered through base rates with no carrying costs permitted.

Q. HOW WAS THE ADJUSTMENT CALCULATED?

A. WP 9-8-1 (for direct) and WP 9-8-2 (for shared services) each compare the amount of expense included in base rates currently for Pension and OPEB expense to the actual cost incurred since the test period ending September 2019 resulting in the implementation of rates in April 2020. In these workpapers, the Company has included periods through March 2023, as this is the expected date of rate implementation for this case.

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

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

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

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

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

A. The Company has elected to eliminate advertising and promotional expenses which are neither customer assistance nor safety-related. This adjustment, as detailed in WP 9-9, is in accordance with KCC Staff recommendation in the 320 Docket.[3] Adjustment IS-7 effects the removal of these expenditures.

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

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

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

Docket.[4]

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

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

Q. PLEASE DESCRIBE THE INCENTIVE COMPENSATION ADJUSTMENT (IS-10).

A. The Company has removed incentive compensation in accordance with the Final Order in the 525 Docket. In the 525 Docket the Commission concluded that there was no reason to revisit its decision announced in the 10-415 Docket to disallow incentive programs that focus on the financial aspect, rather than operational aspects. Thus IS-10 has removed as Adjustment IS-10, 100% of short-term Management Incentive Plan expenses, 50% of the time lapse portion of the Long-Term Incentive Plan, and 100% of the expense associated with the Performance Based Portion of the Long-Term Incentive Plans allocated to Kansas Operations in order to comply with the Commissions policy on this issue. The calculation of the adjustment is shown on WP 9-12 as Adjustment IS-10.

Q. PLEASE DESCRIBE THE BAD DEBT EXPENSE ADJUSTMENT (IS-11).

A. Consistent with the final order in 525 Docket, the Company has adjusted the per books bad debt expense to that of a three-year average percentage. This three-year

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

average percentage is applied to the normalized margin revenue for the test period resulting in Adjustment IS-11 shown on WP 9-13.

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

A. Atmos Energy used 2022 allocation factors in this filing to allocate expense items. The allocation factors can be found on Schedule 12 of the filing, and the methods utilized in the development of these factors are discussed as part of the Cost Allocation Manual ("CAM") in Company witness Michelle Faulk's testimony. The filing is consistent with Shared Services General Office using a composite factor and the Customer Service Center using a customer factor.

Q. PLEASE DESCRIBE THE COMPANY'S CALCULATION OF DEPRECIATION EXPENSE (IS-12).

A. This adjustment, designated as IS-12, recalculates depreciation expense utilizing the depreciation rates approved in the Atmos Energy 525 Docket[5] for its Kansas Direct Division. The Company is proposing new depreciation rates for its Colorado/Kansas General Office and the Shared Services division assets. All depreciation rates were applied to the end-of-test-year balances of plant in service by plant account, thereby normalizing depreciation expense to be consistent with the level of plant in service at the end of the test year.

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[5] Docket No. 19-ATMG-525-RTS Order On Atmos Energy Corporation's Application for a Rate Increase.

Q. HOW IS THE COMPANY PROPOSING TO CHANGE THE DEPRECIATION RATES OF THE COLORADO/KANSAS GENERAL OFFICE, SHARED SERVICES GENERAL OFFICE, AND SHARED SERVICES CUSTOMER SUPPORT?

A. Company witness, Mr. Dane Watson sponsors the depreciation studies which provide the support for the new Colorado/Kansas General Office, Shared Services General Office and Customer Support rates the Company is proposing. These new rates were applied to the end-of-test-year balances of plant in service by plant account, thereby normalizing depreciation expense to be consistent with the level of plant in service at the end of the test year.

Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO DEPRECIATION EXPENSE RELATED TO SIP PROJECTS (IS-13)?

A. As calculated on WP 10-6, the Company has calculated annual deprecation on its SIP assets by plant account balance at March 2022 and removed this expense from the filing.

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

A. Yes. There are three (3) adjustments being proposed to taxes other than income taxes. One adjustment (IS-14) is made to Ad Valorem taxes, one adjustment (IS-15) is related to payroll taxes, and one (IS-16) is related to the KCC assessment.

Q. PLEASE DESCRIBE THE AD VALOREM TAX ADJUSTMENT (IS-14).

A. WP 11-2 compares the test period Ad Valorem tax expense to the most recent Ad Valorem tax assessments. The 2021 Ad Valorem assessments were utilized in

Docket number 22-ATMG-251-TAR in the calculation of the Company's 2022 Ad Valorem surcharge calculation.

Q. WHY IS IT NECESSARY TO ADJUST TO THE LEVEL OF AD VALOREM TAX ASSESSED IN 2021?

A. In the Company's previous six rate cases, filed in September 2007, January 2010, January 2012, January 2014, August 2015, and June 2019 the latest Ad Valorem information was utilized in arriving at the final base rates.

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

A. Yes.

Q. PLEASE DESCRIBE THE PAYROLL TAX ADJUSTMENT (IS-15).

A. A payroll tax adjustment is made in conjunction with the previously discussed labor adjustment. This adjustment is comprised of applying the budgeted payroll tax rate of 7.65% to the direct Kansas pro-forma labor expense less the per book direct Kansas payroll tax. This is reflected in Adjustment IS-15 in the rate case application and is shown on WP 11-4.

Q. PLEASE DESCRIBE THE KCCA ADJUSTMENT (IS-16).

A. The KCCA adjustment is a known and measurable adjustment to normalize to the actual amounts paid by the Company to the KCC as of the Commission's new fiscal year ended June 30, 2022. This is reflected in Adjustment IS-16 in the rate case application and is shown on WP 11-5.

Q. PLEASE DESCRIBE THE INCOME TAX ADJUSTMENT (IS-17).

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

Q. HAS THE COMPANY UPDATED THE INCOME TAX CALCULATION IN SECTION 11B SINCE THE PREVIOUS CASE?

A. Yes, Section 11B is updated to align with Staff's position in the 525 Docket to amortize the before-tax gross-up EDIT balance to deferred tax expense, rather than as an additional tax-effected line in the calculation of the revenue requirement. The result is to show Income Taxes net of EDIT amortization in the revenue requirement.

Q. HAS NEW INFORMATION BECOME KNOWN SINCE THE 525 DOCKET REGARDING EXCESS DEFERRED INCOME TAXES?

A. Yes, there are three new pieces of information that have become known since the 525 Docket and are incorporated into the Section 11B calculation of income taxes. On June 1, 2020 the Kansas governor signed HB 2585 which exempts certain utilities from Kansas state income tax effective for tax years ended on or after January 1, 2021, this has resulted in additional excess deferred income taxes being recorded. In August 2020 the Internal Revenue Service issued Revenue Procedure ("Rev Proc") 2020-39 which clarified the scope of which EDIT are "protected". Lastly, since the previous docket the Company has observed several IRS Private Letter rulings addressing the treatment of Cost of Removal ("COR") in calculating the amortization period for the protected EDIT to avoid normalization violations.

As an example, PLR 202211004 states in part that if any component of book depreciation includes COR, then the taxpayers should modify the calculation to exclude any book depreciation associated with the COR in the derivation of the appropriate amortization period.

Q. HAS THE KANSAS STATE INCOME TAX EXCESS DEFERRED INCOME TAX LIABILITY BEEN INCLUDED IN THIS DOCKET?

A. Yes, the Kansas State Income Tax EDITL is included and the Company is proposing to amortize it back to customers over a five year period.

Q. WHAT DID REV PROC SAY IN REGARD TO "PROTECTED" EDIT?

A. Rev Proc 2020-39 stated in part, "…only the effects of tax rate changes on timing differences related to accelerated depreciation. Any issues unrelated to the effects of tax rate changes on accelerated depreciation are beyond the scope of this revenue procedure", and "The appropriate amortization or other ratemaking treatment of timing differences unrelated to accelerated depreciation, such as unprotected plant or non-plant related items, are to be determined by the regulator in a rate proceeding, consistent with the regulatory authority over the ratemaking treatment of all other elements of jurisdictional cost of service." Based on this Rev. Proc. the Company has modified its position and classified plant basis differences related to Repairs and Capitalized Overhead into the Unprotected category, and is proposing in this docket to amortize the Unprotected EDIT over a five-year period.

Q. DOES THE COMMISSION HAVE DISCRETION IN CHOOSING THE AMORTIZATION PERIOD FOR UNPROTECTED EXCESS DEFERRED INCOME TAXES?

A. Yes, however the Company has selected five years to balance the return of funds to the customer with the need to raise incremental external funds over a reasonable period. Also, if the period were to be reduced significantly, the Commission should consider including provisions to allow customer rates to be adjusted upwards at the end of the unprotected amortization period to avoid too much amortization being recorded.

Q. WHAT IS THE IMPACT OF EXCLUDING THE IMPACT OF COST OF REMOVAL WHEN DETERMINING THE APPROPRIATE PROTECTED AMORTIZATION PERIOD?

A. The impact is to change the amortization period from 21 years to 27 years. Since the protected EDIT liability will, by the end of this proceeding, have three years completed, the Company has adjusted the remaining balance to a 24 year amortization period.

Q. PLEASE DESCRIBE THE INTEREST ON CUSTOMER DEPOSITS ADJUSTMENT (IS-18).

A. Section 14C of the Company's filing utilizes the average customer deposit amount included in this filing (shown in Section 14A) and normalizes the customer deposit interest rate to the 0.21% rate approved by the Commission in Docket number 98-GIMX-348-GIV on December 7, 2021.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

VERIFICATION

STATE OF TEXAS	)
	)
COUNTY OF DALLAS	)

William D. Matthews, being duly sworn upon his oath, deposes and states that he is Manager Rates and 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.

William D. Matthews

William D. Matthews

Subscribed and sworn before me this 29th day of August, 2022.

Notary Public

My appointment expires: September 1, 2024

GISELLE R HEROY
Notary ID #130804842
My Commission Expires
September 1, 2024