

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the Application of Atmos )  
Energy Corporation for Adjustment of its ) Docket No. 19-ATMG-525-RTS  
Natural Gas Rates in the State of Kansas. )

**NOTICE OF FILING OF STAFF TESTIMONY**

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively) and for its Notice of Filing of Staff Testimony states as follows:

The attached testimony was designated "Confidential" when initially filed on October 31, 2019. However, due to the recent 10-K filing on behalf of Atmos Energy Corporation, the following information is no longer deemed confidential and thus shall be filed without redactions.

WHEREFORE, Staff submits its Notice of Filing of Staff testimony for Commission consideration.

Respectfully Submitted,



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**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

**In the Matter of the Application of            )  
Atmos Energy Corporation for                )  
Adjustment of its Natural Gas               )  
Rates in the State of Kansas                )**

**Docket No. 19-ATMG-525-RTS**

**PUBLIC DIRECT TESTIMONY**

**PREPARED BY**

**KRISTINA A LUKE FRY**

**UTILITIES DIVISION**

**KANSAS CORPORATION COMMISSION**

**October 31, 2019**

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### I. Introduction and Witness Qualifications

1   **Q.    Would you please state your name and business address?**

2    A.    My name is Kristina Luke Fry. My business address is 1500 Southwest Arrowhead Road,  
3       Topeka, Kansas, 66604.

4   **Q.    By whom are you employed and in what capacity?**

5    A.    I am employed by the Kansas Corporation Commission (Commission) as a Managing  
6       Auditor.

7   **Q.    Please describe your educational background and professional experience?**

8    A.    In December of 2014, I earned a Master of Business Administrative degree from Washburn  
9       University. I also hold a Bachelor's of Science in Business Administrative with a major in  
10      Accounting from Kansas State University. I began employment with the Commission as

1 a Regulatory Auditor in September 2010 and became a Senior Auditor in July 2013. I  
2 assumed my current position in August 2015.

3 **Q. Have you previously submitted testimony before this Commission?**

4 A. Yes. I have submitted written testimony before this Commission on multiple occasions  
5 regarding various regulatory accounting and ratemaking issues. This work includes  
6 testimony filings in 20 dockets, including this one. A list of the other dockets that  
7 encompass this experience is available upon request.

8  
9 **II. Executive Summary**

10 **Q. What are your responsibilities in the review of the rate case filing made by Atmos**  
11 **Energy Corporation (Atmos) in Docket No. 19-ATMG-525-RTS (19-525 Docket) filed**  
12 **on June 28, 2019?**

13 A. My responsibilities as the lead auditor in this docket are to analyze, audit, and review  
14 Atmos' rate case Application and oversee the preparation of Staff's revenue requirement  
15 recommendations. Additionally, I calculate and sponsor selected Staff adjustments to  
16 Atmos' Income Statement. My duties are carried out under the direction of the Chief of  
17 Accounting and Financial Analysis, Justin Grady.

18 **Q. What is the purpose of your testimony?**

19 A. In summary, I recommend the Commission:

- 20 • Reject Atmos' request to recover its rate case expenses through a line-item  
21 surcharge on customer bills. Instead, I recommend the Commission endorse Staff's  
22 policy recommendation of normalizing rate case expenses over a period of three

1 years, which will allow Atmos to either under recover or over recover its rate case  
2 expenses, depending on the timing of rate cases;

- 3 • Update Atmos' Payroll, Payroll Tax, and Benefit Expenses from an estimated  
4 amount included in Atmos' Application to actual expenses recorded through  
5 August 2019;
- 6 • Remove 100% of the Long Term Performance Based and Management Incentive  
7 Plans which are associated with financial performance metrics and 50% of the Long  
8 Term Time Lapse Incentive Plan (the portion based on earnings per share); and
- 9 • Recognize the tax benefits from the portion of Restricted Stock Units (RSU) awards  
10 that Staff recommends be included in Atmos' cost of service.

11 **Q. Please provide the list of Staff witnesses and a brief description of the testimony they**  
12 **are sponsoring.**

13 A. Bill Baldry: Mr. Baldry sponsors testimony to update Atmos' pension trackers, an update  
14 to Atmos' pension expense and post retirement expense, and leases as of August 31, 2019.

15 Ian Campbell: Mr. Campbell sponsors testimony removing various expenses that Staff  
16 contends are unnecessary for the provision of efficient and sufficient natural gas  
17 distribution service and, thus, are not appropriate for ratepayer recovery; updates KCC  
18 assessment to twelve months ending August 31, 2019; and updates rate case expense  
19 included in the revenue requirement.

20 Lana Ellis: Dr. Ellis sponsors testimony supporting the weather normalization and  
21 customer annualization revenue adjustments.

22 Adam Gatewood: Mr. Gatewood sponsors testimony related to Staff's recommended cost  
23 of capital and capital structure.

1 Dr. Bob Glass: Dr. Glass sponsors testimony related to Staff's proposed rate design.

2 John Gorrell: Mr. Gorrell sponsors testimony related to Atmos' requested System Integrity  
3 Program.

4 Justin Grady: Mr. Grady sponsors testimony related to Atmos' requested System Integrity  
5 Program and Atmos' request for an abbreviated rate case.

6 Brad Hutton: Mr. Hutton sponsors Staff's adjustments to remove Construction Work in  
7 Progress and update Atmos' Plant in Service, Accumulated Depreciation, Accumulated  
8 Deferred Income Tax, Depreciation, Customer Deposits, Prepayments, and Storage Gas to  
9 balances as of August 31, 2019.

10 Roxie McCullar: Ms. McCullar sponsors testimony related to Staff's recommended  
11 depreciation rates for Division 81.

12 Justin Prentiss: Mr. Prentiss sponsors testimony related to Staff's proposed class cost of  
13 service.

14 **Q. How is the rest of your testimony organized?**

15 A. The remainder of my testimony is organized as follows:

16 **(1) Overview** – I provide an overview, which presents some of the significant components  
17 of the rate case and how they differ from Atmos' last two general rate cases. I also discuss  
18 the major drivers of this rate case.

19 **(2) Just and Reasonable Review** – I discuss Staff's revenue requirement analysis. I also  
20 present a table of Staff's adjustments to the pro forma Income Statement and Rate Base  
21 that defines the differences between Staff's and Atmos' recommended revenue  
22 requirement.

**(3) Rate Case Expense Surcharge** – I discuss my recommendation that the Commission reject Atmos’ requested Rate Case Expense Surcharge.

**(4) Adjustments to Revenue Requirement** – I discuss and support my adjustments to Atmos’ revenue requirement.

### III. Overview

**Q. Please provide an overview of Atmos.**

A. The Company began operations in 1906 in the panhandle of Texas. Since then, the Company has undergone various acquisitions, combinations, mergers, and spin-offs to become the largest pure natural gas distribution company in the United States, serving more than three million customers. Atmos is headquartered in Dallas, Texas, and operates in Kansas, Colorado, Kentucky, Louisiana, Mississippi, Tennessee, Texas, and Virginia. Atmos currently provides retail natural gas service to approximately 129,000 customers in the State of Kansas, including natural gas service to 106 communities. Atmos' Kansas customers are located primarily in the Kansas City metro area and, to a lesser degree, in Southeast, Central, and Southwest Kansas.

**Q. Please provide an overview of the rate case request as filed by Atmos.**

A. Atmos' Application, filed June 29, 2019, requests a gross revenue requirement increase of \$10.5 million or 13.4 percent increase in its natural gas service rates. After rebasing the amounts currently collected through the Gas System Reliability Surcharge (GSRS),<sup>1</sup> the net rate impact of this request is an annual increase of \$7,163,131. This equates to a \$3.83

<sup>1</sup> The \$7,163,131 net revenue increase is the result of the \$10,454,550 requested increase being offset by \$3,291,419 already being recovered from ratepayers through the GSRS and adding the impact of the Rate Case Expense Surcharge of \$817,882.

increase per month for residential customers. This increase is supported by pro forma revenues of \$59.8 million, pro forma expenses of \$50.5 million, and a pro forma rate base of \$248.7 million. Atmos has requested a 10.25 percent return on equity and a 7.98 percent overall rate of return (after tax weighted average cost of capital). The table below summarizes how some of these elements have changed since Atmos' last two general rate cases, Docket Nos. 14-ATMG-320-RTS (14-320 Docket) and 16-ATMG-079-RTS (16-079 Docket).

<b>Atmos Pro Forma Rate Base, Revenue, Expenses, Income (in Millions)</b>			
<b>Description</b>	<b>14-320 Docket</b>	<b>16-079 Docket</b>	<b>19-525 Docket</b>
Net Plant	\$214.3	\$232.8	\$285.7
Net Rate Base	\$184.2	\$206.0	\$248.7
Total Operating Revenue	\$53.8	\$57.8	\$59.8
Total Operating Expense	\$45.2	\$46.0	\$50.5
Operating Income	\$8.5	\$11.8	\$9.3

**Q. What are the primary drivers of Atmos' requested rate increase?**

A. According to Atmos' testimony, there are seven major drivers behind Atmos filing this rate case, including: (1) general cost increases since the last rate case; (2) additional investment in plant; (3) increases in wages, medical expenses, materials and supplier costs; (4) new depreciation rates for Atmos' Kansas Division direct general plant; (5) two part rate design with an increased monthly facility and volumetric charges; (6) a request for the creation of a Rate Case Expense Surcharge; and (7) a request for the creation of a System Integrity Program Tariff.

**Q. What is the total rate impact of Atmos' proposed rate increase?**

A. Atmos requests an overall revenue requirement increase of \$10.45 million, inclusive of the base revenue requirement increase and the requested rate case expense surcharge. After



accounting for the rebasing of the GSRS, the net impact to customers is to \$7.16 million. The results of Staff's revenue requirement recommendation is presented in the same manner as follows:

<b>Net Rate Impact</b>		
<b>Description</b>	<b>Atmos</b>	<b>Staff<sup>2</sup></b>
Base Revenue Requirement Increase	\$9,636,668	\$2,697,655
Rate Case Expense Surcharge	\$817,882	\$0
<b>Total Increase to Customers</b>	<b>\$10,454,550</b>	<b>\$2,697,655</b>
GSRS Rebased	\$3,291,419	\$3,291,419
<b>Net Revenue Increase (Decrease) to Customers</b>	<b>\$7,163,131</b>	<b>\$(593,764)</b>

**Q. What test year did Atmos use in its Application before the Commission?**

A. Atmos' revenue requirement schedules are based on a historical test year of the 12-months ending March 31, 2019.

**Q. What are the results of Staff's revenue requirement analysis?**

A. Staff recommends that Atmos be granted a revenue requirement increase of \$2.7 million, a net decrease to ratepayers of \$593,764, which is comparable to Atmos' proposed net revenue requirement increase (with GSRS rebased) of \$7.16 million. I have presented a table below that illustrates the major differences between Atmos' and Staff's revenue requirement analysis (the following amounts are presented in millions).

<b>Description</b>	<b>Atmos</b>	<b>Staff</b>
Total Revenue Increase	\$10,454,550	\$2,697,655
Pro Forma Rate Base	\$248,709,963	\$242,482,567
Operating Income	\$9,320,806	\$15,040,309
Return on Equity	10.25%	9.10%
Rate of Return	7.98%	7.02%

<sup>2</sup> Please note that specific Staff adjustments that show up in Staff's revenue requirement schedules contain the wrong numbers due to revisions to adjustments after Staff's internal deadline for further changes to the revenue requirement had passed. As a result, the revenue requirement recommendation contained within Staff's schedules overstates Atmos' revenue requirement by approximately \$33,192 more than our actual recommendation. As the case progresses into settlement discussions and or an evidentiary hearing, we will update Staff's schedules and correct the record.

1 **IV. Just and Reasonable Review**

2 **Q. Do you believe Staff's revenue requirement analysis results in just and reasonable**  
3 **rates?**

4 **A.** Yes. The result of Staff's revenue requirement analysis meets the balancing test set forth  
5 by the Kansas Supreme Court, which stated in pertinent part is as follows:

6 The leading cases in this area clearly indicate that the goal should be a rate fixed  
7 within the 'zone of reasonableness' after the application of a balancing test in which  
8 the interests of all concerned parties are considered. In rate-making cases, the  
9 parties whose interests must be considered and balanced are these: (1) The utility's  
10 investors vs. the ratepayers; (2) the present ratepayers vs. the future ratepayers; and  
11 (3) the public interest.<sup>3</sup>  
12

13 Each of the balancing factors listed above will be discussed in turn:

14 **(1) Investors vs. ratepayers** – Each of Staff's adjustments offered below are presented  
15 with the intention of producing a revenue requirement that is reflective of Atmos' ongoing  
16 normalized operations to the extent practicable and necessary. This affords Atmos (and its  
17 investors) the opportunity to earn its authorized return but does not guarantee such. Also,  
18 Staff has removed expenses from the cost of service that Staff contends are inappropriate  
19 to recover from Atmos ratepayers or are more appropriately shared between ratepayers and  
20 shareholders. Further, as discussed in Adam Gatewood's testimony, Staff believes its  
21 Return on Equity recommendation is an accurate reflection of the capital costs currently  
22 required in the market for public utility equity and is representative of a just and reasonable  
23 return on invested capital.

24 **(2) Current vs. future ratepayers** – Where possible, Staff has attempted to identify any  
25 intergenerational issues (such as the proper depreciation techniques and the amortization

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<sup>3</sup> *Kan. Gas and Electric Co. v. State Corp Comm'n*, 239 Kan. 483, 488 (1986).

1 of infrequent events or elimination of non-recurring events) and has made  
2 recommendations that Staff contends are appropriately balanced between present and  
3 future ratepayers.

4 **(3) Public interest generally** – Generally speaking, the public interest is served when  
5 ratepayer's interests are carefully considered and balanced against the interests of  
6 management and the shareholders of the utility. This process/review includes protecting  
7 ratepayers from unreasonably high prices, discriminatory prices, and/or unreliable service.  
8 This also includes assuring that rates are not so low that the utilities that serve those  
9 ratepayers are unable to provide reliable service, remain financially stable, and attract  
10 capital on reasonable terms. Staff has carefully considered public interest in developing  
11 its recommendations presented in this Docket and feels that public interest will be served  
12 if Staff's recommendations are adopted by the Commission.

13 Staff's revenue requirement does not adversely impact Atmos' ability to provide  
14 efficient and sufficient service, is based on Atmos' ongoing, normalized cost of service and  
15 includes provisions such as updated plant and plant related balances as of August 31, 2019,  
16 updated payroll and pension expense for all Atmos employees as of August 31, 2019, and  
17 other updated, current cost of service items. Staff's revenue requirement allows Atmos  
18 sufficient revenues and cash flows to allow it the opportunity to earn its rate of return, but  
19 does not guarantee such.

20 **Q. What accounts for the differences between Staff's and Atmos' recommended revenue**  
21 **requirement increase?**

22 **A.** Listed below is a table of each Staff adjustment and the Staff witness sponsoring each  
23 adjustment. Although the particulars of each adjustment are different, Staff adjustments

are usually made in order to correct an error present in Atmos' Application, to revise a pro forma adjustment to utilize more current known and measureable data, or to remove expenses that would not be appropriate to recover from ratepayers. These adjustments are made with the intention that the end result will be a revenue requirement that is in the public interest because it represents ongoing, normalized operations and will result in just and reasonable rates for all stakeholders involved.

<b>Adjustment No.</b>	<b>Witness</b>	<b>Description</b>	<b>Effect on Rate Base or Operating Income</b>
RB-1	Hutton	Remove Construction Work in Progress	\$(11,110,143)
RB-2	Hutton	Plant in Service	\$7,840,069
RB-3	Hutton	Accumulated Depreciation	\$(2,161,428)
RB-4	Hutton	Accumulated Deferred Income Taxes	\$(1,081,792)
RB-5	Hutton	Customer Deposits	\$40,502
RB-6	Hutton	Prepayments	\$62,178
RB-7	Hutton	Storage Gas	\$527,781
RB-8	Grady	Excess Deferred Income Taxes	\$(344,564)
IS-1	Luke Fry	Payroll Update	\$(76,070)
IS-2	Luke Fry	Payroll Tax Update	\$49,345
IS-3	Luke Fry	Benefit Update	\$202,065
IS-4	Luke Fry	Incentive Compensation	\$559,029
IS-5	Hutton	Depreciation Expense	\$2,413,239
IS-6	Hutton	Bad Debt Expense	\$27,838
IS-7	Hutton	Interest on Customer Deposits	\$1,102
IS-8	Campbell	Advertising	\$9,605
IS-9	Campbell	Donations	\$74,772
IS-10	Campbell	KCC Assessments	\$8,070
IS-11	Campbell	Miscellaneous Charges	\$69,780
IS-12	Campbell	Rate Case Expense	\$(58,298)
IS-13	Baldry	Update Pension Expense To August 31	\$65,132
IS-14	Baldry	Corporate Pension, OPEB, and Medical	\$68,917
IS-15	Baldry	Pension & Postretirement Benefit Tracker	\$(4,658)
IS-16	Baldry	Leases	\$(88,992)
IS-17	Ellis	Weather Normalization	\$(465,957)
IS-18	Ellis	Customer Annualization	\$119,039
IS-19	Luke Fry	Income Taxes	\$(732,173)

1 **Q. Did Staff allocate its adjustments before inclusion in Staff's schedules?**

2 A. Yes. Staff's adjustments were first calculated on a total company basis, then allocated to  
3 the respective division (if applicable) based upon the appropriate allocation percentage.  
4

5 **V. Staff Schedules**

6 **Q. Please briefly describe the Staff Schedules you are sponsoring in this Docket.**

7 A. Summary schedules are presented first, with the Schedules showing the derivation of the  
8 recommended adjustments following. The elements comprising the proposed revenue  
9 requirement are summarized on Staff Schedule REV REQ. Staff's proposed Rate Base is  
10 brought forward from Staff Schedule A-1, Staff Adjusted and Pro Forma Rate Base.  
11 Similarly, Staff's adjusted Net Operating Income recommendations are brought forward  
12 from Staff Schedule B-1, Staff Adjusted and Pro Forma Operating Income Statement.  
13 Staff's cost of capital recommendation is set forth on Staff Schedule C-1, Capital Structure.  
14 The Schedules are organized as follows:

<u>Staff Schedule</u>	<u>Explanation</u>
Rev Req	Lists the individual components of Staff's Pro Forma revenue requirement calculation for Atmos
A-1	Test year Rate Base as adjusted by Atmos and Staff
A-2	Lists individual Staff adjustments to Atmos' Pro Forma Rate Base
A-3	Explanation of Staff's adjustments to Rate Base
B-1	Test year Income Statement as adjusted by Atmos and Staff
B-2	Lists individual Staff adjustments to Atmos' Pro Forma Income Statement
B-3	Explanation of Staff's adjustments to Income Statement

1           B-4           Test-year Income Taxes as adjusted by Atmos and Staff  
2           B-4-1       Staff's interest expense calculation  
3           C-1       Atmos' test-year and Staff's adjusted Capital Structure  
4           C-2       Staff's adjustments to Capital Structure  
5           C-3       Explanation of Staff's adjustments to Capital Structure  
6

7                           **VII. Adjustments to Revenue Requirement**

8   **A.   Payroll**

9   **Q.   Please start your discussion of the adjustments to the Revenue Requirement by**  
10 **discussing Staff Adjustment No. 1 to the Income Statement.**

11   A.   Staff Adjustment No. 1 (IS-1) increases operating expense by \$76,070.<sup>4</sup> Staff's adjustment  
12       revises Atmos Adjustment No. IS-1 to Payroll Expense. On pages 11 and 12 of Atmos  
13       witness Jennifer Story's Direct Testimony, Ms. Story explains that Atmos reflects the  
14       annualization of the average merit increase of three percent implemented in October 2018.  
15       Since half the test year included the merit increase, Atmos adjusted its test year payroll by  
16       1.5 percent. Staff's adjustment updates Atmos' payroll expense to the 12 months ending  
17       August 31, 2019, to reflect the most recent known and measureable payroll expense to  
18       more closely match the cost of service, newly hired and terminated employees between the  
19       end of the test year and August 31, 2019, a full 12 months of actual merit increase, and  
20       applies a labor expense ratio that reflects an individual average for each Atmos division  
21       providing services to Kansas.  
22

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<sup>4</sup> See Exhibit KALF-1.

1 **Q. Please discuss how Staff's payroll adjustment differs from Atmos'.**

2 A. On pages 11 and 12 of her Direct Testimony, Atmos witness Jennifer Story states:

3 This adjustment to labor expense reflects the annualization of the average  
4 merit increase of 3.0 percent implemented on October 1, 2018, as applied  
5 to the total gross labor recorded on the books and records for the test year.  
6 The calculation to include the merit increase, as shown in Workpaper  
7 ("WP") WP 9-2, takes into account that one-half of the fiscal year is  
8 included in the test year; accordingly, 1.5 percent is used in the labor  
9 adjustment calculation, instead of the full 3.0 percent. In addition, a three  
10 year average expense rate is applied to the adjusted gross labor calculation  
11 to reflect the portion of the adjusted gross labor related to O&M expense.  
12

13 Atmos' approach to calculating a full 12 months of merit increase is inaccurate because  
14 Atmos multiplies the full year of payroll expense by 1.5%, when six of the 12 months of  
15 payroll expense in the test year already includes the potential 3.0% merit increase. As a  
16 result, Atmos' calculated payroll adjustment slightly overstates the actual impact of the  
17 2018 merit increase. Staff's update to 12 months ending August 31, 2019, includes 12  
18 months of actual known and measureable payroll expense that contains the 3.0% merit  
19 increase that Atmos attempted to include in the cost of service. Additionally, Staff adopts  
20 Atmos' calculation of the three-year average Operating and Maintenance (O&M) expense  
21 percentage that was applied to the adjusted gross labor calculation to reflect the portion of  
22 the adjusted gross labor related to O&M expense with a small change.<sup>5</sup> However, Staff's  
23 adjustment utilizes the actual O&M percentages of each division, as compared to Atmos'  
24 approach of applying the average of the three year averages for each division. Staff's  
25 approach results in a more accurate depiction of labor expenses by division and, thus, a  
26 more accurate calculation of payroll taxes by division, as discussed in Staff Adjustment  
27 No. 2 below.

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<sup>5</sup> See Pages 11 and 12 of Jennifer Story's Direct Testimony.

1 **Q. Has Staff updated payroll expenses in a similar manner in previous rate cases?**

2 A. Yes. In fact, this is the same approach Staff took in the last rate case. In rebuttal testimony  
3 in the 16-079 Docket, Atmos witness Barbara Myers states that Atmos agrees with Staff's  
4 approach to update payroll expense and, while Staff's approach to utilize a three year  
5 average allocation calculated by division differs from Staff's prior case adjustments, Atmos  
6 agrees that it is more accurate.<sup>6</sup>

7  
8 **B. Payroll Tax**

9 **Q. Please continue by discussing Staff Adjustment No. 2 to the Income Statement.**

10 A. Staff Adjustment No. 2 (IS-2) decreases operating expense by \$49,345.<sup>7</sup> Staff's adjustment  
11 revises Atmos Adjustment No. IS-12 to Payroll Tax Expense. Atmos' adjustment was  
12 calculated by applying the payroll tax rate of 7.65% to Atmos' calculated direct Kansas  
13 pro-forma labor expense and subtracting the per book direct Kansas payroll tax from the  
14 product. Staff's adjustment uses the same calculation but applies the payroll tax rate to  
15 Staff's calculated Kansas direct labor expense so the most current known and measurable  
16 information is utilized in the calculation of the adjustment to payroll tax.

17 **Q. Please explain why Staff's adjustment increased payroll expense but decreased**  
18 **payroll tax expense.**

19 A. As discussed above in the description of Staff Adjustment IS-1, Atmos applied the average  
20 of three year averages for each division in order to calculate its payroll expense adjustment.  
21 In contrast, Staff utilized the individual three year average expense rates for each division.  
22 While Atmos' approach doesn't result in an inaccurate total for Kansas payroll expense, it

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<sup>6</sup> See Docket 16-ATMG-079-RTS, Rebuttal Testimony of Barbara Myers, p. 5

<sup>7</sup> See Staff Exhibit KALF-2.



1 does reduce the accuracy of the calculation of payroll expense for each individual division.  
2 As a result, even though Staff's recommended total payroll expense is higher than Atmos',  
3 Staff's calculation of Kansas Direct Pro forma Labor expense is less than Atmos' by  
4 \$645,028.<sup>8</sup> When the payroll tax rate of 7.65% is applied to the difference, the result is a  
5 decrease of \$49,345 for Staff's Payroll Tax Adjustment.  
6

7 **C. Benefits**

8 **Q. Please continue by discussing Staff Adjustment No. 3 to the Income Statement.**

9 A. Staff Adjustment No. 3 (IS-3) decreases operating expense by \$202,065.<sup>9</sup> Staff's  
10 adjustment revises Atmos Adjustment No. IS-2 to Benefits Expense. As discussed by  
11 Atmos witness Jennifer Story on page 12 of her Direct Testimony, Atmos calculated the  
12 adjustment by multiplying the 2019 budgeted benefits percentage, based on actuarial  
13 reports, by Atmos' payroll expense adjustment. Staff's adjustment updates Atmos'  
14 benefits expense to account for actual expenses incurred by Atmos for the 12-months  
15 ending August 31, 2019. The Commission should reject Atmos' adjustment because it is  
16 not based on known and measurable amounts. The Commission should instead accept  
17 Staff's adjustment which relies on known and measurable information, and it is in the  
18 public interest to allow Atmos' rates to more closely match its current cost of service.  
19  
20

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<sup>8</sup> Staff's approach resulted in an expense rate for Kansas Direct of 45.18%, compared to 50.75% in Atmos' calculations.

<sup>9</sup> See Staff Exhibit KALF-3.

1 **D. Incentive Compensation**

2 **Q. Please continue by discussing Staff Adjustment No. 4 to the Income Statement.**

3 A. Staff Adjustment No. 4 (IS-4) decreases operating expense by \$559,029 to remove  
4 incentive compensation expense included in Atmos' cost of service.<sup>10</sup> Staff's adjustment  
5 eliminates 100% of the Management Incentive Plan expenses, 50% of the time lapse  
6 portion of the Long Term Incentive Plan, and 100% of the performance based award of the  
7 Long Term Incentive Plan expense that is allocated to Kansas operations.

8 **Q. Please describe in more detail Atmos' Management Incentive Plan.**

9 A. The Management Incentive Plan awards are normally paid in cash. However, the  
10 participant may elect to convert all or a portion of the award to bonus shares of stock or to  
11 restricted stock units. According to Atmos, the purpose of the Management Incentive Plan  
12 is to provide a sense of "personal commitment on the part of its executives and senior  
13 managers in the continued growth, development, and financial success of the Company  
14 and encourage them to remain with and devote their best efforts to the business of the  
15 Company, thereby advancing the interests of the Company and its shareholders."<sup>11</sup>  
16 Employees are eligible to participate in the Management Incentive Plan if they are named  
17 executive officers, along with other officers, division presidents, and other key  
18 management employees. In 2014, Atmos changed the terms of the incentive to be paid out  
19 if Atmos met specific earnings per share targets.<sup>12</sup> Incenting employees to grow earnings  
20 per share benefits shareholders much more directly than ratepayers and may incent  
21 behavior that is detrimental or harmful to ratepayers over time. While the goal of the plan

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<sup>10</sup> See Staff Exhibit KALF-4.

<sup>11</sup> See Atmos' response to Staff Data Request No. 63 included in Staff Exhibit KALF-6.

<sup>12</sup> See *Id.*

1 is to better Atmos' overall company health, Staff excluded the full amount paid in the  
2 Management Incentive plan because it is based on the Company's resulting earnings per  
3 share rather than a metric that benefits ratepayers.

4 **Q. Please provide more detail about the Long-Term Incentive Plan.**

5 A. Long-Term Incentive Plan awards are grants of incentive stock options, non-qualified stock  
6 options, stock appreciation rights, bonus stock, time-lapse restricted stock, time-lapse  
7 restricted stock units, performance-based restricted stock units, and stock units. As  
8 provided by Atmos in its response to Staff Data Request No. 63, "(t)he purpose of the Plan  
9 is to attract and retain the services of able people as employees of the Company and its  
10 Subsidiaries and as Non-employee Directors (as herein defined), to provide such persons  
11 with a proprietary interest in the Company through the granting of incentive stock options,  
12 non-qualified stock options, stock appreciation rights or restricted stock, to motivate  
13 employees and Non-employee Directors using performance-related incentives linked to  
14 longer-range performance goals and the interest of the Company's shareholders..."<sup>13</sup> The  
15 award is based on the executive officer's midpoint of their salary range. The award is  
16 structured with 50% of the award provided in the form of time-lapse restricted stock units  
17 and 50% in the form of performance-based restricted stock units. The time-lapse restricted  
18 stock units vest after three years of service.

19 **Q. Please explain why Staff is eliminating one half of the time-lapse expense that is part**  
20 **of the Restricted Stock Units expense.**

21 A. Atmos offers restricted stock units that will vest after three years of service with the  
22 Company. This assists in the retention of qualified executives and encourages executives

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<sup>13</sup> See Atmos' response to Staff Data Request No. 63 included in Staff Exhibit KALF-6.

1 to perform in a way that is conducive to the long-term health and growth of the Company.  
2 Ratepayers and stockholders benefit when the Company maintains its viability and grows  
3 over the long-term. Since both parties benefit, it is reasonable for ratepayers and  
4 stockholders to share in this portion of executive compensation.

5 **Q. Why is Staff proposing to eliminate 100% of the Long Term Incentive Plan -**  
6 **Performance Based expense allocated to Kansas for the Test Year?**

7 A. Staff recommends eliminating 100% of the expense associated with the Performance Based  
8 portion of the Long Term Incentive Plan because the award is provided in the form of  
9 performance-based restricted stock units in which the criteria that is used to establish the  
10 payout amount is solely financial in nature. Staff's concern with this portion of the plan is  
11 similar to the concern expressed above regarding the Management Incentive Plan in that  
12 plan participants are focused on purely financial goals to the potential detriment of  
13 customers. This is a consequence of designing a plan which causes participants to focus  
14 solely on financial performance measures instead of concentrating on a broad range of  
15 financial and operational measures more likely to benefit customers and shareholders alike.  
16 Staff believes having participants focusing on a single financial measure, earnings per  
17 share, likely results in an over-weighting of a participant's focus on the financial aspects of  
18 Atmos' business compared to operational functions.

19 **Q. Why is Staff recommending the Commission disallow Atmos' Management Incentive**  
20 **Plan and the Performance Based portion of Atmos' Long Term Incentive Plan from**  
21 **the cost of service in this rate case?**

22 A. Staff has reviewed Atmos' executive incentive compensation and made its  
23 recommendation with the framework approved by the Commission in Docket No. 10-

1 KCPE-415-RTS (10-415 Docket). In that rate case, Staff recommended, and the  
2 Commission ordered, a disallowance from rates of 50% of time-based restricted stock  
3 expense and 100% of performance-based restricted stock expense. The Commission's  
4 Order in that rate case stated the following:

5 In examining employee incentive compensation programs, the Commission  
6 will consider how criteria are weighted between operational and financial  
7 measures. Incentive compensation tied to the Company's financial interests  
8 will improve the profitability of the company and, as a result, benefit  
9 shareholders more than ratepayers.<sup>14</sup>

10  
11 In approving Staff's recommendation in the case, the Commission found the following:

12 The Commission approves allowances of executive incentive compensation  
13 plan expenses as recommended by Staff and agreed to by KCPL. The  
14 Commission finds Staff's rationale for its adjustments properly balances the  
15 interests of ratepayers and shareholders. The incentive programs developed  
16 by KCPL provide measurable incentives. To the extent these incentives  
17 cause executives to focus singularly on financial aspects of the business  
18 rather than operational, shareholders should be responsible for those  
19 payouts. The Commission allows the inclusion of executive incentive in  
20 operating expenses as recommended by Staff.<sup>15</sup>

21  
22 Since the Commission's decision in the 10-415 Docket, Staff has analyzed executive  
23 incentive compensation expenses in accordance with this framework in every investor-  
24 owned utility rate case to come before the Commission. Furthermore, the Commission's  
25 decision in the 10-415 Docket was upheld by the Commission in KCP&L's 12-KCPE-764-  
26 RTS case. Additionally, in KCP&L's two most recent rate cases, Docket Nos. 15-KCPE-  
27 116-RTS (15-116 Docket) and 18-KCPE-480-RTS (18-480 Docket), the Company made a  
28 voluntary adjustment to incentive compensation that removed the amount of expense that  
29 was ordered in the 10-415 Docket.

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<sup>14</sup> Docket 10-KCPE-415-RTS, Order: 1) Addressing Prudence; 2) Approving Application, in Part; & 3) Ruling on Pending Requests, November 22, 2010, p. 46 (10-415 Order, p. 46).

<sup>15</sup> 10-415 Docket Order, p. 51.

1 **Q. Why should Atmos' executive incentive compensation described above be analyzed**  
2 **according to the framework described by the Commission Order in the 10-415**  
3 **Docket?**

4 A. Atmos' executive incentive compensation should be analyzed consistent with the decisions  
5 in the 10-415 and 12-764 Dockets because the facts and circumstances of those rate cases  
6 are essentially the same as those before the Commission in this docket. Atmos' executive  
7 incentive compensation is designed to incent behaviors which are more beneficial to, and  
8 focused on, shareholders rather than ratepayers. Therefore, justness and reasonableness  
9 favors requiring shareholders to pay more of the costs of these programs than ratepayers.  
10 That is the result that is most balanced between Atmos' shareholders and its ratepayers.

11 **Q. Is there any evidence that shareholders are willing to pay for a portion of incentive**  
12 **compensation if it means keeping executives' interests aligned with theirs?**

13 A. Yes. In its two most recent Proxy Statements, over 85% of Atmos shareholders approved  
14 the compensation structure. Further, the proxy statement states "Stock-based incentive  
15 plans and share ownership guidelines are utilized to align the interests of our named  
16 executive officers with those of our shareholders." As a fully-regulated utility, Atmos'  
17 shareholders are no doubt aware that the decision to design an incentive compensation  
18 package in a way that aligns employees' interests with those of shareholders might come  
19 at the cost of being able to recover those incentive compensation costs from ratepayers.  
20 Atmos and other utilities have the ability to change the metrics which determine incentive  
21 payouts in order to weigh more heavily on safety or other metrics that equally benefit  
22 ratepayers. This would result in Atmos being able to recover more of these expenses from

1 ratepayers. However, Atmos' shareholders are apparently happy with its current  
2 compensation practices.

3  
4 **E. Incentive Compensation Related Deferred Tax**

5 **Q. Did Staff make an adjustment to recognize the tax benefit associated with equity**  
6 **compensation expense included in Atmos' cost of service?**

7 A. Yes. Staff makes an adjustment to Staff Schedule B-4 to reduce Atmos' deferred tax by  
8 \$20,811<sup>16</sup> in the calculation of total income tax expense.<sup>17</sup> During the test year, Atmos  
9 received a tax benefit for equity incentive compensation paid. This tax benefit was not  
10 passed onto Atmos customers even though a portion of the cost of equity incentive  
11 compensation is passed onto Atmos customers. Staff's rationale for this adjustment is that  
12 customers are paying some of the expense associated with the tax benefit that Atmos had  
13 received, so customers should receive some of the tax benefit which occurred during the  
14 test year. Staff's adjustment is the result of evaluating the tax benefit amounts related to  
15 the restricted stock incentives and calculating a pro rata portion applicable to the 50% of  
16 time-based restricted stock incentives expense Staff recommends ratepayers pay in this  
17 case. In the event that the Commission does not adopt Staff's incentive compensation  
18 adjustment in total or removes a larger portion of incentive compensation expense from the  
19 test year, this adjustment will need to be revised. As an example, if all of Atmos' incentive  
20 compensation expenses were included in the test year, the Commission would need to

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<sup>16</sup> Staff is marking this adjustment as confidential in an effort to keep other Staff adjustments to Schedule B-4 confidential.

<sup>17</sup> See Staff Schedule B-4, Line 13, Column D for the adjustment. See Staff Exhibit KALF-5 for the adjustment calculation.

1           reinstate the entirety of the applicable reduction in deferred taxes, which would reduce the  
2           revenue requirement by \$101,958.

3  
4   **F.    Income Taxes**

5   **Q.    Please discuss Staff's adjustment to Income Taxes.**

6   A.   Staff Adjustment No. 19 (IS-19) increases current Income Taxes by \$732,173.<sup>18</sup> Staff's  
7       adjustment reflects the effects of Staff's adjustments to Rate Base, Income Statement,  
8       interest expense, and the capital structure. Staff's adjustment is shown in its revenue  
9       requirement Schedule B-4. This adjustment will change based upon any changes made by  
10      the Commission to Staff's adjustments.

11  
12                                   **VI.   Rate Case Expense Surcharge**

13   **Q.    Please describe Atmos' requested Rate Case Expense Surcharge.**

14   A.   Atmos is requesting the Commission allow Atmos to recover all of the rate case  
15      expense it incurs from this Docket through a one-year surcharge on customer bills.

16   **Q.    What support does Atmos provide for this requested rate case expense surcharge?**

17   A.   Atmos witness Jennifer Story discusses Atmos' request on pages 23 through 25 of her  
18      direct testimony. On page 24, Ms. Story states that Atmos has requested this surcharge  
19      to simplify the rate case expense recovery process. Ms. Story explains that the  
20      frequency of the Company's recent rate case filings versus the time frame typically  
21      allowed by the KCC to recover rate case expenses have led the Company to believe

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<sup>18</sup> Please note that specific Staff adjustments that show up in Staff's revenue requirement schedules contain the wrong numbers due to revisions to adjustments after Staff's internal deadline for further changes to the revenue requirement had passed. As a result, Staff's Income Tax adjustment will change.



1 that separating the recovery of rate case expenses from the dynamics of a rate case  
2 would better allow Atmos to fully recover its prudently incurred rate case expenses. To  
3 continue with the concept to simplify this process, Atmos took the expense and divided it  
4 by the number of customer bills, which is readily available in the filing.<sup>19</sup>

5 **Q. Does Staff support Atmos' proposed rate case expense surcharge?**

6 A. No. While the proposed rate case expense tracker will address the concern Staff has  
7 regarding the inequitable treatment of the practice of re-amortizing unamortized rate  
8 case expenses, Staff has major concerns regarding Atmos' filed request. The first  
9 concern is the effect this surcharge would have on Atmos' incentive to manage its  
10 rate case expenses prudently if Atmos knew it would receive complete recovery of  
11 those costs within one year. Staff's second concern is the time frame in which Atmos  
12 is wanting to recover its incurred rate case expenses. Atmos' proposal would have  
13 Atmos recovering rate case expenses in substantially less time than Staff has  
14 recommended in Atmos' most recent cases.

15 Instead of Atmos' proposed surcharge, Staff recommends the Commission  
16 normalize Atmos' prudently incurred rate case expenses over a period of three years  
17 and explicitly state that Atmos will not be allowed to recover the unamortized portion  
18 of that rate case expense if it files a rate case sooner than three years. This is consistent  
19 with how Staff recommends handling prudently incurred rate case expenses for all  
20 regulated natural gas and electric investor-owned utilities in the State of Kansas.

21 **Q. In other rate cases that have come before the Commission, Staff has expressed**  
22 **concern that the practice of re-amortizing previously unamortized rate case**

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<sup>19</sup>See Atmos' response to Staff Data Request No. 248, provided in Staff Exhibit KALF-6.

1 **expenses amounts to a situation where a utility can never under-recover its rate**  
2 **case expenses, but it is allowed to over-recover those expenses. Doesn't Atmos'**  
3 **proposal address this concern?**

4 A. To an extent, yes. Atmos' proposal would result in a situation where Atmos was only  
5 allowed to recover its actual rate case expenses, no more, no less. However, it could  
6 have troubling effects on the incentive of a utility to minimize rate case expenses, and  
7 it would undercut the incentive for a utility to delay a general rate case for as long as  
8 possible. By comparison, Staff's suggested rate case expense policy will provide utilities  
9 with an incentive to manage its rate case expenses and will preserve the incentive for a  
10 utility to extend the time period between general rate cases to at least three years, longer if  
11 possible. Extending the time period between rate cases is in the public interest because  
12 rate cases are expensive and time consuming for all involved. Additionally, customers  
13 prefer, and benefit from, rate stabilization.

14 **Q. Why do you contend that Atmos' proposed rate case expense surcharge would**  
15 **have the effect of diminishing these important incentives?**

16 A. If Atmos is guaranteed to recover its rate case expense in one year, economic and regulatory  
17 theory suggests that it will have less incentive to control those costs in this and future  
18 proceedings. Additionally, because Staff's recommended rate case expense policy comes  
19 with a certain amount of risk of under-recovery, Staff contends that the utility will be more  
20 likely to exert management control over these costs. This is important because, as the  
21 courts have recognized, "Rate Case expenditures involve some degree of management  
22 choice and discretion whether to incur the expenses."<sup>20</sup> It should also be noted that in its

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<sup>20</sup> See *Citizens Utility Ratepayer Board v ICC*, 166111.2d 111, 129-130, 209 I11. Dec. 64 1, 651 N.E.2d 1 089 (1995).

1 last rate case, Atmos was ordered to amortize rate case expense over three years. That  
2 amortization period ended at the end of the test year and Atmos will over recover an  
3 additional year of rate case expense. Staff is not recommending to capture the over  
4 recovery, nor has Staff in recent history required a utility to refund a rate case expense  
5 over-recovery. If a utility over-recovers its rate case expense because it is able to delay  
6 a general rate case filing longer than the amortization period, then utility's ratepayers  
7 will benefit from a longer period of rate stability. Additionally, the utility will have  
8 managed its other operating costs for a longer period, which is desirable from Staff's  
9 perspective.

10 Last, Atmos' rate case expense tracker will make Atmos completely indifferent to the time  
11 between general rate case filings. Staff's recommended policy preserves Atmos' incentive  
12 to delay the filing of a general rate case at least three years, longer if possible, so that it  
13 can recover its entire amount of rate case expense. If management at Atmos decides  
14 that a rate proceeding is needed before the three-year period is up, management  
15 understands that there will be rate case expense left uncollected, meaning there are  
16 other factors which cause Atmos management to decide to file sooner.

17 **Q. Aside from the benefits which Staff believes ratepayers receive when rate case**  
18 **expense is included in the cost of service, are there any other concerns Staff has with**  
19 **Atmos' proposal?**

20 **A.** Yes. Atmos' proposal would require customers to pay for the costs of a rate case in just  
21 one year, while the benefits of that rate case will likely last Atmos several years. For this  
22 reason, and because rate cases occur on average every three years, a three-year period is  
23 typically used to amortize or normalize rate case expenses.

1        Additionally, Atmos' requested surcharge would be charged to customers on the basis of  
2        customer count; in other words, all customers would pay the same amount for rate case  
3        expense. The only support provided for this request is in response to Staff Data Request  
4        No. 248, in which Atmos states: "(a)s part of the simplification of this process, the number  
5        of customer bills by class is readily available in the filing (Section 17) and this method  
6        provides a simple, straightforward and easy to understand calculation." Staff contends  
7        this rationale is insufficient for the establishment of an allocation methodology. For  
8        example, the GSRS statute<sup>21</sup> requires the Commission to spread the costs of the GSRS  
9        revenue requirement between customer classes on the basis of how similar facility costs  
10       were spread during the most recent base rate case. Since Atmos will likely continue to  
11       maximize the level of spending allowed for recovery through the GSRS, these allocation  
12       percentages will be readily known and available. Further, in this rate case so far,  
13       approximately \$30,000 has been spent reviewing and preparing rate design and class cost  
14       of service recommendations. Since the outcome of that process will be used to allocate the  
15       GSRS and any Commission-approved SIP charges, Staff fails to understand why that  
16       allocation methodology would not be appropriate for the rate case expense surcharge as  
17       well, if the Commission were to disagree with Staff and approve this mechanism for  
18       Atmos.

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<sup>21</sup> See K.S.A. 66-2202, through K.S.A 66-2204.

**VIII. Conclusion**

**Q. Please summarize your recommendations in this Docket.**

A. I recommend that the Commission make the following findings as they relate to Atmos' requested rate changes in this Docket:

- Reject Atmos' request to recover its rate case expenses through a line-item surcharge on customer bills. Instead, I recommend that the Commission endorse Staff's policy recommendation of normalizing rate case expenses over a period of three years, which will allow Atmos to either under recover or over recover its rate case expenses, depending on the timing of rate cases. If the Commission agrees with Atmos' requested surcharge, the Commission should revise the surcharge in the fashion described above in my testimony.
- Update Atmos' Payroll, Payroll Tax, and Benefit Expenses from an estimated amount included in Atmos' Application to actual expenses recorded through August 2019.
- Remove 100% of the Long Term Performance Based and Management Incentive Plans which are associated with financial performance metrics and 50% of Long Term Time Lapse Incentive Plan which is rewarded based on earnings per share.
- Update the amount of deferred taxes included in the test year based on Staff's treatment of RSU awards.

**Q. Does that conclude your testimony?**

A. Yes.

**EXHIBITS**

KALF-1      Staff Exhibit to update Payroll Expense

1	KALF-1A	Staff Exhibit providing support for Staff's Labor Expense Rate
2	KALF-1B	Staff Exhibit providing support for Staff's Gross Payroll
3	KALF-2	Staff Exhibit to update Payroll Tax Expense
4	KALF-3	Staff Exhibit to update Benefits Expense
5	KALF-4	Staff Exhibit to remove Incentive Compensation
6	KALF-4A	Staff Exhibit calculating the Capitalization Ratio
7	KALF-4B	Staff Exhibit calculating the Incentive Compensation Exclusion Rate
8	KALF-5	Staff Exhibit to calculate the tax benefit for Incentive Compensation
9	KALF-6	Atmos' responses to Staff Data Requests 63, 180, 242-243, 248, & 300-301

# Staff Exhibits

Atmos Energy Corporation  
Labor Expense  
Income Statement Adjustment No. 1  
Test Year Ending March 31, 2019

Docket No. 19-ATMG-525-RTS  
Exhibit KALF-1

Line No.	Description	Kansas Direct	General Office	Customer Support	Colorado/Kansas General Office	Reference
1	Staff's Updated Payroll Expense	11,728,913	50,612,222	28,048,554	3,865,103	(1)
2	Atmos' Test Year Payroll Expense	11,540,257	48,515,787	27,116,947	3,748,614	(2)
3	Staff's Update to Payroll Expense	188,656	2,096,435	931,607	116,489	Line 1 - Line 2
4	Allocation to Kansas	100.00%	3.72%	4.29%	55.66%	(2)
5	Increase Allocated to Kansas	188,656	77,987	39,966	64,838	Line 3 x Line 4
6	3 Year Average Expense Rate	45.18%	69.92%	87.17%	42.86%	(3)
7	Total Labor Expense Adjustment	85,236	54,530	34,838	27,788	Line 5 x Line 6
8	Atmos' Payroll Adjustment	87,846	13,738	8,855	15,883	(2)
9	<b>Staff's Adjustment to Payroll Expense</b>	<b>(2,610)</b>	<b>40,792</b>	<b>25,983</b>	<b>11,905</b>	Line 7 - Line 8
10	<b>Staff's Adjustment to Increase Payroll Expense</b>				<b>76,070</b>	Sum of Line 9

Sources:

- (1) Staff Exhibit KALF-1B  
(2) Included in Atmos Workpaper 9-2 included in the Application  
(3) Staff Exhibit KALF-1A



Atmos Energy Corporation  
Labor Expense Rate  
Twelve Months Ending March 31, 2019

Docket No. 19-ATMG-525-RTS  
Exhibit KALF-1A

<b>12 Months Ending</b>	<b>Kansas Direct</b>	<b>General Office</b>	<b>Customer Support</b>	<b>CO/KS General Office</b>	<b>Total Kansas</b>
March 31, 2017:					
O&M Labor Expense	5,013,112	33,903,185	26,043,468	1,337,137	66,296,902
Gross Labor	11,285,699	50,486,135	29,741,566	3,256,759	94,770,159
FY2017 Allocation	100.00%	3.91%	4.28%	57.49%	
Kansas Expense	5,013,112	1,325,615	1,114,660	768,720	8,222,107
Kansas Gross Labor	11,285,699	1,974,008	1,272,939	1,872,311	16,404,957
March 31, 2018:					
O&M Labor Expense	5,240,719	33,321,857	22,859,714	1,691,963	63,114,253
Gross Labor	11,258,103	46,860,848	26,431,117	3,557,578	88,107,646
FY2018 Allocation	100.00%	3.83%	4.29%	56.72%	
Kansas Expense	5,240,719	1,276,227	980,682	959,681	8,457,309
Kansas Gross Labor	11,258,103	1,794,770	1,133,895	2,017,858	16,204,627
March 31, 2019:					
O&M Labor Expense	5,145,591	34,819,157	23,699,057	1,496,647	65,160,452
Gross Labor	11,540,257	48,515,787	27,116,947	3,748,614	90,921,605
FY2019 Allocation	100.00%	3.72%	4.29%	55.66%	
Kansas Expense	5,145,591	1,295,273	1,016,690	833,034	8,290,587
Kansas Gross Labor	11,540,257	1,804,787	1,163,317	2,086,479	16,594,840
3 Year Average:					
O&M Labor Expense	5,133,141	1,299,038	1,037,344	853,812	8,323,334
Gross Labor	11,361,353	1,857,855	1,190,050	1,992,216	16,401,474
O&M Labor Percent	45.18%	69.92%	87.17%	42.86%	

Source:

(1) Included in Atmos Workpaper 9-2-2 included in the Application

Atmos Energy Corporation  
Gross Labor  
Twelve Months Ending August 31, 2019

Docket No. 19-ATMG-525-RTS  
Exhibit KALF-1B

Line No.	Account Description	Sub Accounts	Kansas Direct	General Office	Customer Support	CO/KS General Office	Total Kansas
1	CWIP 1070	1000	-	74,587	-	-	74,587
2	CWIP 1070	1001	-	-	-	-	-
3	CWIP 1070	1009	108,362	16,805	8,698	173,741	307,606
4	Undistributed Stores 1630	1000	17,101	261,952	-	104,381	383,434
5	Undistributed Stores 1630	1008	(151)	788	-	6	643
6	Below the Line 4264	1000	-	228,642	-	-	228,642
7	Below the Line 4264	1008	-	(2,091)	-	-	(2,091)
8	Below the Line 4265	1000	-	160,504	-	-	160,504
9	Below the Line 4265	1008	-	0	-	-	0
10	O&M Expense 7010-9320	1000	5,239,622	48,746,889	27,685,214	1,307,743	82,979,468
11	O&M Expense 7010-9320	1001	6,297,566	1,037,278	298,521	2,288,628	9,921,994
12	O&M Expense 7010-9320	1003	-	-	-	-	-
13	O&M Expense 7010-9320	1006	54,777	4,798	-	913	60,488
14	O&M Expense 7010-9320	1008	11,636	82,069	56,121	(10,310)	139,516
15	O&M Expense 7010-9320	1009	-	-	-	-	-
16	Total Gross Labor Detail (Sum of Lines 1-15)		11,728,913	50,612,222	28,048,554	3,865,103	94,254,793

Source:

(1) Atmos' Responses to Staff Data Request Nos. 243 included in Staff Exhibit KALF-6

Atmos Energy Corporation  
Payroll Tax  
Income Statement Adjustment No. 2  
Test Year Ending March 31, 2019

Docket No. 19-ATMG-525-RTS  
Exhibit KALF-2

Line No.	Description	Atmos' Total Kansas	Staff's Total Kansas
1	Gross Direct Labor with Annualized Merit Increase	11,713,361	11,728,913
2	Three Year Average Expense Rate	50.75%	45.18%
3	Kansas Direct Proforma Labor Expense	5,944,235	5,299,207
4	Payroll Tax Rate	7.65%	7.65%
5	Total Payroll Tax	454,734	405,389
6	Less: Per Book Kansas Direct Payroll Tax (WP 11-1 Lines 1-8)	(350,812)	(350,812)
7	Total Payroll Tax Adjustment	103,922	54,577
8	<b>Staff's Adjustment to Decrease Payroll Tax Expense</b>		<b>(49,345)</b>

Sources:

- 
- (1) Atmos Energy Corporation's Application, Section 11 WP 11-5
  - (2) Staff Exhibit KALF-1A

Atmos Energy Corporation  
Benefits Expense  
Income Statement Adjustment No. 3  
Test Year Ending March 31, 2019

Docket No. 19-ATMG-525-RTS  
Exhibit KALF-3

Line No.	Description	Kansas Direct	General Office	Customer Support	Colorado/Kansas General Office	Reference
1	Staff's Updated Benefit Expense	1,419,128	12,041,368	8,961,491	(300,435)	(1)
2	Atmos' Test Year Benefit Expense	1,372,875	13,361,451	8,713,669	10,925	(2)
3	Update to Benefits Expense	46,253	(1,320,083)	247,822	(311,360)	Line 1 - Line 2
4	Kansas Allocation Factors	100.00%	3.72%	4.29%	55.66%	(2)
5	Allocated to Kansas	46,253	(49,107)	10,632	(173,303)	Line 3 x Line 4
6	Atmos' Adjustment to Benefits Expense	24,725	4,466	2,879	4,470	(2)
7	<b>Staff's Adjustment to Benefits Expense</b>	21,528	(53,573)	7,753	(177,773)	Line 5 - Line 6
8	<b>Staff's Adjustment to Decrease Benefit Expense</b>				<u><u>(202,065)</u></u>	Sum of Line 7

Sources:

- 
- (1) Atmos' Response to Staff Data Request No. 242 included in Staff Exhibit KALF-6  
(2) Included in Atmos Workpaper 9-3 included in the Application

Atmos Energy  
Incentive Compensation  
Income Statement Adjustment No. 4  
For The Test Year Ended March 31, 2019

Docket No. 19-ATMG-525-RTS  
Exhibit No. KALF-4

Line No.	Description	Amount	Percentage to Include	Staff Adjustment	Less: Capitalized Overhead	Net Expense	Allocation for Kansas	Kansas Portion
1	RSU - Long Term Incentive Plan - Performance	6,224,589	100%	6,224,589	0.4367	2,718,258	3,506,331	130,436
2	RSU - Long Term Incentive Plan - Time Lapse	5,156,043	50%	2,578,022	0.4367	1,125,814	1,452,208	54,022
3	RSU - Management Incentive Plan	406,744	100%	406,744	0.4367	177,624	229,120	8,523
4	Management Incentive Plan	7,815,051	100%	7,815,051	0.4367	3,412,808	4,402,243	163,763
5				Kansas Portion of Atmos' Incentive Plans for Division 002:				<u>356,744</u>
6	RSU - Long Term Incentive Plan - Performance	155,626	100%	155,626	0.1033	16,072	139,554	5,987
7	RSU - Long Term Incentive Plan - Time Lapse	115,193	50%	57,597	0.1033	5,948	51,648	2,216
8	RSU - Management Incentive Plan	20,588	100%	20,588	0.1033	2,126	18,462	792
9				Kansas Portion of Atmos' Incentive Plans for Division 012:				<u>8,995</u>
10	RSU - Long Term Incentive Plan - Performance	162,490	100%	162,490	0.5255	85,389	77,101	42,915
11	RSU - Long Term Incentive Plan - Time Lapse	124,149	50%	62,075	0.5255	32,620	29,454	16,394
12	RSU - Management Incentive Plan	7,358	100%	7,358	0.5255	3,867	3,491	1,943
13	Management Incentive Plan	406,079	100%	406,079	0.5255	213,395	192,684	107,248
14				Kansas Portion of Atmos' Incentive Plans for Division 030:				<u>168,500</u>
15	RSU - Long Term Incentive Plan - Performance	26,016	100%	26,016	0.3376	8,782	17,234	17,234
16	RSU - Long Term Incentive Plan - Time Lapse	22,815	50%	11,408	0.3376	3,851	7,557	7,557
17				Kansas Portion of Atmos' Incentive Plans for Division 080:				<u>24,790</u>
18				<b>Staff's Adjustment to Remove Incentive Compensation from Atmos' Test Year:</b>				<u><u>559,029</u></u>

Sources:

- (1) Atmos' Responses to Staff Data Request Nos. 63, 180, and 301 included in Staff Exhibit KALF-6  
(2) Atmos' Application and Supporting Workpapers

Atmos Energy  
Incentive Compensation Capitalization Percentage  
For The Test Year Ended March 31, 2019

Docket No. 19-ATMG-525-RTS  
Exhibit No. KALF-4A

Line No.	Description	General Office	Customer Support	CO/KS	
				General Office	Kansas Direct
1	Net Expense Allocated to Overhead	8,560,317	30,094	367,891	16,484
2	Net Expense	19,602,427	291,407	700,076	48,831
3	Overhad Capitalization Percentage	0.4367	0.1033	0.5255	0.3376

Source:

(1) Staff Exhibit KALF-4

Atmos Energy  
Incentive Compensation Exclusion Rate Calculation  
For The Test Year Ended March 31, 2019

Docket No. 19-ATMG-525-RTS  
Exhibit No. KALF-4B

Line No.	Division	RSU Recorded to Test Year	RSU Removed from Test Year
1	002	11,380,632	8,802,611
2	012	270,819	213,223
3	030	286,639	224,565
4	081	48,831	37,424
5	Total	11,986,921	9,277,821
6		Exclusion Rate:	0.7740

**Note:** This rate excludes RSU relating to Management Incentive Plan and is utilized by Staff Witness Brad Hutton

Line No.	Division	MIP/VPP Recorded to Test Year	MIP/VPP Removed from Test Year
7	002	14,260,937	7,815,051
8	030	2,002,611	406,079
9	Total	16,263,548	8,221,130
10		Exclusion Rate:	0.5055

**Note:** This rate calculates that amount of MIP/VPP removed from case and is utilized by Staff Witness Brad Hutton

Source:

(1) Staff Exhibit KALF-4

Atmos Energy  
Taxable Income Adjustment  
Adjustment to Staff Schedule B-4  
For The Test Year Ended March 31, 2019

Docket No. 19-ATMG-525-RTS  
Exhibit No. KALF-5

Line No.	Description	Amount
1	Excess Tax Benefit	95,420
2	Staff's Inclusion Rate	0.2181
3	<b>Staff's Adjustment to Reduce Taxable Income (Line 13 of Staff Schedule B-4)</b>	<b><u>20,811</u></b>

	Division	RSU Recorded to Test Year	RSU Removed from Test Year
4	002	11,787,376	9,209,355
5	012	291,407	233,811
6	030	293,997	231,923
7	081	48,831	37,424
8	Total	<u>12,421,611</u>	<u>9,712,511</u>
9		Exclusion Rate:	<u>0.7819</u>

**Note:** Staff is marking this adjustment as confidential in an effort to keep other Staff adjustments to Schedule B-4 confidential. The information in this exhibit is not confidential.

Source:

(1) Atmos' Response to Staff Data Request No. 300 included in Staff Exhibit KALF-6



## **CERTIFICATE OF SERVICE**

19-ATMG-525-RTS

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing was served via electronic service this 18th day of November, 2019, to the following:

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**CERTIFICATE OF SERVICE**

19-ATMG-525-RTS

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