

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

In the Matter of the Application of Atmos)
Energy for Approval of the Commission for)
Gas System Reliability Surcharge per K.S.A.)
66-2201 through 66-2204.) Docket No. 18-ATMG-218-TAR

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and files its Report and Recommendation on Atmos Energy's (Atmos) Gas System Reliability Surcharge (GSRS) request. Staff recommends the Commission approve for Atmos an incremental GSRS revenue requirement of \$819,607 with conditions. If approved, this would cause residential customer bills to increase by \$0.40 per month or \$4.80 annually.

WHEREFORE, Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and proper.

Respectfully submitted,

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**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chair Shari Feist Albrecht
Commissioner Jay Scott Emler
Commissioner Pat Apple

FROM: Brad Hutton, Auditor
Kristina Luke Fry, Managing Auditor
Dennis Crupper, Pipeline Safety Engineer
Leo Haynos, Chief of Pipeline Safety & Energy Operations
Justin Grady, Chief of Accounting and Financial Analysis
Jeff McClanahan, Director of Utilities

DATE: January 18, 2018

SUBJECT: Docket No. 18-ATMG-218-TAR – In the Matter of the Application of Atmos Energy for Approval of the Commission for Gas System Reliability Surcharge per K.S.A. 66-2201 through 66-2204.

EXECUTIVE SUMMARY:

In Docket 18-ATMG-218-TAR, Atmos Energy (Atmos) filed a request for an amended tariff schedule, labeled the Gas System Reliability Surcharge (GSRS). This surcharge is designed to allow for the adjustment of Atmos' rates and charges to provide for the recovery of costs associated with eligible infrastructure system replacements. Staff has reviewed all testimony, exhibits, and discovery responses from Atmos and recommend that \$6,100 out of the \$7,683,656 in requested capital costs be excluded from recovery through the GSRS. Staff finds that the remaining \$7,677,556 of capital expenditures requested by Atmos meet the eligibility requirements for recovery through this GSRS surcharge. Due to these exclusions in capital costs, Staff is recommending an Incremental GSRS revenue of \$819,607, a \$1,247 reduction from Atmos' requested amount of \$820,854¹. If approved, this filing increases residential customer

¹ Although Atmos proposes a revenue increase of \$936,614 in its Application, Line 7 of Atmos' Exhibit 2 shows that the applicant will ultimately only collect \$820,854 due to a statutory limitation of \$115,760. This adjustment was applied to the initial revenue requirement to prevent the monthly surcharge to residential customers from exceeding \$.40. K.S.A. 66-2204(e)(1) states, "Such monthly charge shall not increase more than \$.40 per residential customer over the base rates in effect for the initial filing of a GSRS. Thereafter, each filing shall not increase the monthly charge more than \$.40 per residential customer over the most recent filing of a GSRS."

bills by \$.40 monthly or \$4.80 annually. Staff is required to examine this GSRS filing and submit a Report and Recommendation to the Commission within 60 days of the original filing date regarding the appropriateness for GSRS recovery of the projects included and the proper calculation of the surcharge. Therefore, a Report and Recommendation in this Docket is due by January 22, 2018.²

BACKGROUND:

On November 21, 2017, Atmos filed an Application requesting Commission approval to implement changes in its GSRS tariff schedule. Atmos' requested tariff is designed to provide for a total revenue requirement of \$820,854 based off of capital costs totaling \$7,683,656.

K.S.A. 66-2204 requires Staff to examine information from the utility and confirm that the underlying costs are in accordance with the statutory provisions of the Gas Safety and Reliability Policy Act. Staff is required to file a Report and Recommendation in this Docket by January 22, 2018. The Commission is required to issue a Final Order on the Application within 120 days of the filing date which, in this Docket, is by March 21, 2018.

To make the determination of recommending a given project for inclusion in the GSRS, it is customary for Staff to evaluate the project to determine if infrastructure replacements are required for compliance with pipeline safety regulations or if relocation/replacement projects were incurred due to other public works projects. To perform this evaluation, Staff must rely on the description of each project provided in the operator's Application or through responses to data requests.

History

The Gas Safety and Reliability Policy Act, K.S.A. 66-2001 through 66-2004, was enacted by the Kansas Legislature in July 2006. The statutory provisions allow natural gas public utilities to recover costs for certain infrastructure projects through a monthly customer surcharge. These statutory provisions only apply to projects that entail the replacement of infrastructure or extend the useful life of existing infrastructure. The replacement projects are further limited to those projects that are required for compliance with pipeline safety regulations or for facility relocation projects caused by other public works projects, such as road improvement.

In its review of the Application, the Commission is required to confirm that the included replacement projects meet the provisions of the Act. The Commission is also charged with the obligation of confirming that the proposed surcharge has been properly calculated and is based solely on the projects included in the Application. As a first step in making this determination, Staff relies on two essential statutory provisions. Those provisions are as follows:

- K.S.A. 66-2202 (f) "natural gas utility plant projects" may consist only of the following:
 - (1) Mains, valves, service lines, regulator stations, vaults and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities;

² The 60-day period ends on Saturday, January 20, 2018. Because this date falls on a weekend, the actual due date of the Report and Recommendation will be Monday, January 22, 2018.

- (2) main relining projects, service line insertion projects, joint encapsulation projects and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state and federal safety requirements; and
- (3) facility relocations required due to construction or improvement of a highway, road, street, public way or other public work...provided that the costs related to such projects have not been reimbursed to the natural gas public utility.
- K.S.A. 66-2203 (a) ...a natural gas public utility providing gas service may file a petition...to establish or change GSRS rate schedules...to provide for the recovery of costs for eligible infrastructure system replacements.

Kansas pipeline safety regulations are primarily adopted from federal pipeline safety regulations: 49 CFR Part 192, as adopted by K.A.R. 82-11-4. As stated in the scope of the federal code, the regulations prescribe the minimum safety requirements for pipeline facilities. When evaluating projects for the applicability of GSRS, the decision must rest on defining which portion of the project brings the system into compliance with safety regulations and which portion of a given project is being completed as a business decision to renew an aging infrastructure or improve operating efficiency. Often the utility's rationale for performing a replacement project is based on a blend of economic considerations with pipeline safety or relocation requirements.

ANALYSIS:

Pipeline Safety

Staff recommends proposed capital costs of \$7,677,556 be included in the surcharge. Exhibit BWA-1 is attached to the Direct Testimony of Atmos Energy witness, Barton W. Armstrong, and supports the proposed capital costs. There are three groups of projects being submitted in this filing, including: 29 projects comprised of safety related system improvements; 15 government mandated relocation projects that have not been fully reimbursed to the natural gas utility; and 15 functional safety related bucket projects completed to address safety concerns.

Safety Related System Replacements

For the Safety Related System Replacement projects, Staff reviewed the synopsis of work and pipeline code compliance citation provided by Atmos Energy for each identified project. Based upon the information given, Staff recommends the Commission accept these projects as eligible for GSRS recovery.

Public Improvements - Government Mandated Relocation Project

For the Public Improvement - Government Mandated Relocation projects, Staff reviewed the synopsis of work and compared that scope of work to the construction plans issued by the governmental unit sponsoring the public works project. Using the plans as a reference point, Staff evaluated the public works project request for relocation, as well as the amount of gas facilities that needed to be relocated. Staff reviewed each of the 15 projects in detail to ensure the projects met the requirement of the GSRS statute. Staff recommends the Commission accept the 15 relocation projects as eligible for GSRS recovery.

Functional Safety Related “Bucket” Projects

Atmos Energy describes “bucket” projects as project categories that contain several smaller projects, with usually more than one hundred projects collectively in a given “bucket” project. Based on a review of the project files, Staff recommends that \$6,100 be removed from the proposed GSRS funding. The amount of \$6,100 was related to the cost of replacing service lines that were associated with excavation damages for which Atmos Energy was responsible. Atmos Energy either mis-marked the lines or failed to mark the lines. This proposed deduction of \$6,100 is reflected in the total \$7,677,556 listed above.

Accounting

Staff recommends approval of \$819,607 in incremental GSRS revenue to be collected by Atmos via the monthly charge, a reduction of \$1,247 from Atmos’ requested amount. The exhibits supporting Staff’s revenue requirement calculation are attached to this Report as Staff Updated Exhibits 1, 2, 5, and 9. These are the exhibits in which Staff’s recommendation differs from Atmos’ filed position.

Staff performed an audit of Atmos’ Application to verify that the surcharge was properly calculated and based solely on the projects included in the Application. Staff issued discovery requesting invoices and general ledger entries in support of a random sample of projects included in the Application. Upon reviewing this documentation, Staff found no errors or concerns.

On December 22, 2017, the Tax Cuts and Jobs Act (The Act) was signed into law by the President. The Act lowers the federal corporate income tax rate from 35% to 21%, along with other changes in tax policy. In anticipation of the passage of The Act, Staff requested that the Commission open a general investigation docket with the purpose of examining the impact of The Act on the revenue requirements of regulated utilities operating in the State.³ Additionally, Staff recommended that the Commission issue an Accounting Authority Order requiring companies to track and accumulate in a deferred revenue account (regulatory liability) the reduction in the regulated cost of service that occurred with the passage of The Act. If approved, this liability would collect interest compounded monthly at the most current Commission-approved customer deposits interest rate.⁴

In this Docket, Staff evaluated whether the Commission should adjust Atmos’ filed GSRS to account for the reductions in corporate income tax expense resulting from the implementation of the Act. In response to Staff Data Request No. 4, Atmos points out that 18-GIMX-248-GIV Docket (18-248 Docket) is going to review the impact that The Act will have on each utility’s rates and that review should be performed on a comprehensive basis instead of in a piecemeal manner. Atmos contends that while certain elements of the financial effects of the new tax rate could be calculated for this filing, the other effects of The Act (like the amortization of excess deferred income taxes) is much more complicated and is best calculated on an overall basis. Therefore, Atmos argues that the 18-248 Docket is the best place to handle the impact of the tax changes.

³ See Docket No. 18-GIMX-248-GIV.

⁴ For more detail on Staff’s position, please refer to Staff’s Motion to Open General Investigation and Issue Accounting Authority Order Regard Federal Tax Reform filed on December 14, 2017, in Docket 18-GIMX-248-GIV.

While the revenue requirement calculation in this Docket does not reflect the reduction in the cost of service associated with The Act, Staff's recommended solution in the 18-248 Docket will provide protection for customers by calculating interest on the tax savings. In conclusion, Staff does not object to Atmos' request to calculate the overall tax savings effects in the 18-248 Docket, primarily because the full range of these calculations are complicated and are best handled in a comprehensive fashion. Additionally, Staff's recommended approach in the 18-248 Docket will compensate customers for the loss of their time value of money.

RECOMMENDATION:

Staff recommends that the Commission approve for Atmos a GSRS revenue requirement of \$819,607 to be collected via the per-customer surcharge with the following conditions:

- Atmos must file updated GSRS tariffs to reflect the changes in the per-customer surcharge as discussed above prior to billing the new surcharges;
- Atmos must file a GSRS true-up pursuant to K.S.A. 66-2204(e)(2); and
- Staff will review Atmos' true-up filing to ensure that the amounts recovered via the surcharge are appropriate and any over/under-recoveries will be refunded to or recovered from customers at that time.

Line No.	Description	Total	18-ATMG-218-TAR	17-ATMG-141-TAR	Source
	(a)	(b)	(c)	(d)	(e)
1	Gas Plant	15,955,101	7,677,556	8,277,545	Exhibits 5, 7
2	Depreciation & Amortization Reserve	(385,416)	(89,983)	(295,434)	Exhibits 5, 7
3	Net Gas Plant	15,569,684	7,587,573	7,982,111	
4	Accumulated Deferred Income Taxes	(3,060,233)	(1,438,369)	(1,621,864)	Exhibits 5, 7
5	Total Rate Base	12,509,451	6,149,204	6,360,247	
6	Pre-Tax Rate of Return	11.040%	11.040%	11.040%	Exhibit 4
7	Required Operating Income on Investment	1,381,043	678,872	702,171	
8	Depreciation Expense	313,144	181,929	131,216	Exhibit 3
9	Total Deficiency	1,694,188	860,801	833,387	
10	Total GSRS Revenue	<u>\$ 1,694,188</u>			
11	True-Up of Recoveries	38,779			Exhibit 9
12	Grand Total	1,732,967			
13	Authorized in Docket No. 17-ATMG-141-TAR	800,928			
14	Incremental GSRS Revenue Request	<u>\$ 932,039</u>	\$ 4,575		
		(112,432)	112,432		
		819,607			

Line No	Description	Total Company	Sales Service					Transportation Service		
			Residential	Comm.-Pub Auth	School	Industrial/ Interrupt/Small Generator	Irrigation Engine	Transportation Firm	Transport Interruptible	Transport Firm School
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	Total Annual Bills ^[1]	1,539,517	1,413,800	115,463	787	1,101	3,338	1,836	444	2,748
2	Total Proposed Rate Revenue ^[1]	\$60,694,753	\$44,148,492	\$10,312,785	\$113,182	\$112,432	\$1,221,974	\$2,559,884	\$1,478,332	\$747,672
3	<u>GSRS Allocation</u>									
4	Customer Class Allocation Percent	100.00%	72.74%	16.99%	0.19%	0.19%	2.01%	4.22%	2.44%	1.23%
5	GSRS Annual Revenue \$ [Exhibit 1]	932,039	677,952	158,365	1,738	1,727	18,765	39,310	22,702	11,481
6	Less Statutory Limit Adjustment	(112,432)	(112,432) ^[2]							
7	Net Revenue \$	819,607	565,520	158,365	1,738	1,727	18,765	39,310	22,702	11,481
8	Incremental Monthly Surcharge per customer		0.40	1.37	2.21	1.57	5.62	21.41	51.13	4.18
9	Current Surcharge		0.40	1.27	2.05	1.45	5.21	19.84	47.37	3.87
10	Total Proposed GSRS		0.80	2.64	4.26	3.02	10.83	41.25	98.50	8.05
			9.60							
11	<u>Calculation of Statutory Limit Adjustment - Residential GSRS</u>									
12	Incremental Monthly Residential GSRS		0.40							
13	Number of Residential Customers		1,413,800							
14	Maximum Incremental Residential GSRS		565,520							
15	Less Residential Revenue from Line 5		677,952							
16	Statutory Limit Adjustment		(112,432) ^[2]							

[1] Settled in Docket 16-ATMG-079-RTS

[2] Statutory Limit applied based on residential customers from last rate proceeding

Atmos Energy Corporation
Depreciation, Accumulated Depreciation, Additions

Line No.	Department	Project No.	Category	Budget Category	Regulation	Work Order Long Description	Amount	In Srvc Date	FERC Acct	File Date	Mos In Srvc	Book			Tax				Tax > Book
												Depr Rate	Annual Depr	Accum Depr	Tax Bonus	Tax Basis	Yr 1 Rate	Accum Depr	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)
1	COKS-Herington-C&M/Service [3136]	060.23447	Leak Repair	System Integrity	192.703	3136-NON GROWTH LEAK MAINS FUNCTIONAL	171,952	4/1/2017	37602	11/20/17	8	2.010%	3,456	2,237	50%	85,976	5.00%	4,299	88,038
2	COKS-Herington-C&M/Service [3136]	060.23448	Leak Repair	System Integrity	192.703	3136-NON GROWTH LEAK SERVICES FUNCTIONAL	155,050	4/1/2017	38000	11/20/17	8	3.300%	5,117	3,312	50%	77,525	5.00%	3,876	78,090
3	COKS-Herington-C&M/Service [3136]	060.23449	Functional Cathodic Protection	System Integrity	192.463(b)	3136-NON GROWTH ANODE/CATHODIC FUNCTIONAL	3,163	4/1/2017	37600	11/20/17	8	1.740%	55	36	50%	1,582	5.00%	79	1,625
4	COKS-Olathe-C&M/Service [3143]	060.23486	Leak Repair	System Integrity	192.703	3143- NON GROWTH LEAK MAINS FUNCTIONAL	724,508	4/1/2017	37602	11/20/17	8	2.010%	14,563	9,425	50%	362,254	5.00%	18,113	370,942
5	COKS-Olathe-C&M/Service [3143]	060.23487	Leak Repair	System Integrity	192.703	3143-NON GROWTH LEAK SERVICES FUNCTIONAL	1,073,977	4/1/2017	38000	11/20/17	8	3.300%	35,441	22,938	50%	536,989	5.00%	26,849	540,900
6	COKS-Olathe-C&M/Service [3143]	060.23488	Functional Cathodic Protection	System Integrity	192.463(b)	3143-NON GROWTH ANODE/CATHODIC FUNCTIONAL	72,122	4/1/2017	37600	11/20/17	8	1.740%	1,255	812	50%	36,061	5.00%	1,803	37,052
7	COKS-Independence-C&M/Service [3145]	060.23496	Leak Repair	System Integrity	192.703	3145-NON GROWTH LEAK MAINS FUNCTIONAL	428,335	4/1/2017	37602	11/20/17	8	2.010%	8,610	5,572	50%	214,167	5.00%	10,708	219,303
8	COKS-Independence-C&M/Service [3145]	060.23497	Leak Repair	System Integrity	192.703	3145-NON GROWTH LEAK SERVICES FUNCTIONAL	122,987	4/1/2017	38000	11/20/17	8	3.300%	4,059	2,627	50%	61,493	5.00%	3,075	61,941
9	COKS-Independence-C&M/Service [3145]	060.23498	Functional Cathodic Protection	System Integrity	192.463(b)	3145-NON GROWTH ANODE/CATHODIC FUNCTIONAL	281,898	4/1/2017	37600	11/20/17	8	1.740%	4,905	3,175	50%	140,949	5.00%	7,047	144,822
10	COKS-Yates Center-C&M/Service [3146]	060.23506	Leak Repair	System Integrity	192.703	3146-NON GROWTH LEAK MAINS FUNCTIONAL	192,007	4/1/2017	37602	11/20/17	8	2.010%	3,859	2,498	50%	96,003	5.00%	4,800	98,306
11	COKS-Yates Center-C&M/Service [3146]	060.23507	Leak Repair	System Integrity	192.703	3146-NON GROWTH LEAK SERVICES FUNCTIONAL	86,283	4/1/2017	38000	11/20/17	8	3.300%	2,847	1,843	50%	43,141	5.00%	2,157	43,456
12	COKS-Yates Center-C&M/Service [3146]	060.23508	Functional Cathodic Protection	System Integrity	192.463(b)	3146-NON GROWTH ANODE/CATHODIC FUNCTIONAL	20,861	4/1/2017	37600	11/20/17	8	1.740%	363	235	50%	10,430	5.00%	522	10,717
13	COKS-Johnson-C&M/Service [3139]	060.28358	Functional Cathodic Protection	System Integrity	192.463(b)	3139-NON GROWTH ANODE/CATHODIC FUNCTIONAL	5,314	4/1/2017	37600	11/20/17	8	1.740%	92	60	50%	2,657	5.00%	133	2,730
14	COKS-Johnson-C&M/Service [3139]	060.28361	Leak Repair	System Integrity	192.703	3139-NON GROWTH LEAK SERVICES FUNCTIONAL	33,238	4/1/2017	38000	11/20/17	8	3.300%	1,097	710	50%	16,619	5.00%	831	16,740
15	COKS-Johnson-C&M/Service [3139]	060.28362	Leak Repair	System Integrity	192.703	3139-NON GROWTH LEAK MAINS FUNCTIONAL	42,549	4/1/2017	37602	11/20/17	8	2.010%	855	554	50%	21,274	5.00%	1,064	21,785
16	COKS-Olathe-C&M/Service [3143]	060.36259	Public Improvement	Public Improvements	66-2202(f)	Relocate ~2855' of facilities to avoid public improvements. Reimburseable 32%	221,113	2017-04-26	37602	11/20/17	7	2.010%	4,444	2,568	50%	110,556	5.00%	5,527.82	113,516
17	COKS-Olathe-C&M/Service [3143]	060.36539	Public Improvement	Public Improvements	66-2202(f)	Replace 3" B/S with 6" HDPE as per public improvement conflicts. Deadline: Sept. 17	38,593	2017-08-11	37602	11/20/17	3	2.010%	776	218	50%	19,297	5.00%	965	20,044
18	COKS-Olathe-C&M/Service [3143]	060.37161	Leak Repair	System Integrity	192.703	this is due to a leak in main in casing under rail road (GSRS)	104,693	2017-01-13	37601	11/20/17	10	1.900%	1,989	1,718	50%	52,346	5.00%	2,617	53,245
19	COKS-Olathe-C&M/Service [3143]	060.37201	Public Improvement	Public Improvements	66-2202(f)	Riverview Reroute For Wyandotte County. Project is 0% reimburseable; 100% GSRS; Commercial customer service charges are on a growth functional.	108,275	2017-08-11	37602	11/20/17	3	2.010%	2,176	611	50%	54,137	5.00%	2,706.87	56,234
20	COKS-Olathe-C&M/Service [3143]	060.37300	Public Improvement	Public Improvements	66-2202(f)	See ACE Project Description	527,599	2017-02-14	37602	11/20/17	9	2.010%	10,605	8,219	50%	263,800	5.00%	13,189.99	268,771
21	COKS-Olathe-C&M/Service [3143]	060.37301	Leak Repair	System Integrity	192.703	Replace 950' of 3" BS & 2 1100' of 2" isolated bare steel LP with HDPE IP as per cathodi protection compliance: historical leaks & CP bond broken August 2016; 24 services will be replaced; In house project	39,038	2016-10-21	37602	11/20/17	13	2.010%	785	861	50%	19,519	5.00%	976	19,634
22	COKS-Herington-C&M/Service [3136]	060.37342	Cathodic Protection	System Integrity	192.463(b)	Install a new ground bed and retire the existing ground bed at the intersection of T Ave. and 2900 Road in Herington, Morris County, Kansas. This is a GSRS project due to replacing a failing ground bed.	14,342	2016-11-10	37600	11/20/17	13	1.740%	250	260	50%	7,171	5.00%	359	7,270
23	COKS-Olathe-C&M/Service [3143]	060.37346	Leak Repair/Cathodic Protection	System Integrity	192.703/192.463	Abandon in place the low pressure from Park to Elm along Pine and from T roost to Wain along Elm and replace the area with intermediate pressure HDPE. Justification are to eliminate replacing a broken rectified ground bed & eliminate a drip tank.	227,935	2017-08-14	37602	11/20/17	3	2.010%	4,582	1,247	50%	113,968	5.00%	5,698	118,419
24	COKS-Olathe-C&M/Service [3143]	060.37377	AGP	System Integrity	192.317	exposed plastic main in a drain area that had washed out.	39,263	2016-10-06	37602	11/20/17	14	2.010%	789	899	50%	19,632	5.00%	982	19,714
25	COKS-Olathe-C&M/Service [3143]	060.37426	Public Improvement	Public Improvements	66-2202(f)	Strip & lower Aldly A main in conflict with proposed RCP @ 1517 Pawnee Circle, Olathe, KS. GSRS Eligible as per public entity relocation request. Let for bid Jan 17.	6,654	2017-03-14	37602	11/20/17	8	2.010%	134	93	50%	3,327	5.00%	166	3,400
26	COKS-Independence-C&M/Service [3145]	060.37429	Leak Repair	System Integrity	192.703	Install 1,130 feet of 2 inch HDPE gas main and 17 3/4" HDPE service lines . Disconnect, Purge and Abandon in place 1,130 feet of 4 inch Bare Steel. This is a GSRS Project due to bare steel with leaks and water problems.	39,981	2016-12-20	37602	11/20/17	11	2.010%	804	748	50%	19,991	5.00%	1,000	20,242
27	COKS-Olathe-C&M/Service [3143]	060.37459	Public Improvement	Public Improvements	66-2202(f)	Replace ~1474' of facilities & 20 services taps to avoid storm water improvements, Baschor, KS. Project is 0% reimburseable; 100% GSRS as per public improvements	23,934	2016-12-08	37602	11/20/17	12	2.010%	481	464	50%	11,967	5.00%	598	12,102
28	COKS-Independence-C&M/Service [3145]	060.37570	Public Improvement	Public Improvements	66-2202(f)	Install approximately 400 feet of 4 inch HDPE gas main. Disconnect, purge, and abandon place approximately 400 feet of 2 inch bare steel for a public improvement project. This is a GSRS project due to Public Improvements.** Revision information** Con	53,526	2017-02-07	37602	11/20/17	10	2.010%	1,076	855	50%	26,763	5.00%	1,338	27,247
29	COKS-Independence-C&M/Service [3145]	060.37927	Atmospheric Corosion	System Integrity	192.479	Install approx. 450 feet of 2 inch HDPE to replace a 450 foot 2 inch Bare steel creek crossing This is a GSRS project due to bare steel with major corrosion issues. One existing poly service will be tied over to the new main.	32,309	2017-02-20	37602	11/20/17	9	2.010%	649	492	50%	16,155	5.00%	808	16,470
30	COKS-Independence-C&M/Service [3145]	060.37994	Leak Repair	System Integrity	192.703	Install 1,045' of 2" HDPE gas main. Abandon 1,325' of 2" bare steel and remove RS7384. This is a GSRS project due to bare steel main with a history of leakage.	62,326	2017-04-28	37602	11/20/17	7	2.010%	1,253	717	50%	31,163	5.00%	1,558	32,004
31	COKS-Yates Center-C&M/Service [3146]	060.38160	Leak Repair	System Integrity	192.703	Install 4,400 feet of 2 inch HDPE. Retire 5, 170 feet of 2 inch bare steel and 750 feet of 6 inc bare steel. Regular stations 7312, 7313, and 7322 will be retired. This is a GSRS project due to bare steel pipe with active leaks in Burlington, Coffey Cou	263,080	2017-08-22	37602	11/20/17	3	2.010%	5,288	1,322	50%	131,540	5.00%	6,577	136,795
32	COKS-Herington-C&M/Service [3136]	060.38172	Leak Repair	System Integrity	192.703	Install approx. 450 feet of 4" HDPE, retire 450 feet of 6" bare steel and 285' feet of 3" bare steel. This is a GSRS project with active leaks in Anthony, Harper County, Kansas.	16,804	2017-03-23	37600	11/20/17	8	1.740%	292	197	50%	8,402	5.00%	420	8,626
33	COKS-Olathe-C&M/Service [3143]	060.38189	Leak Repair	System Integrity	192.703	grade 2 leak on 2" steel main three existing leak clamps found on pipe 323 feet of steel before tying to 2" plastic	4,939	2017-03-15	37601	11/20/17	8	1.900%	94	65	50%	2,469	5.00%	123	2,528
34	COKS-Herington-C&M/Service [3136]	060.38201	Leak Repair	System Integrity	192.703	Install approximately 750' of 2" HDPE and Retire 740' of 2" bare steel. This is a GSRS project due to bare steel with a history of leaks and multiple compression couplings.	4,891	2017-04-18	37602	11/20/17	7	2.010%	98	59	50%	2,445	5.00%	122	2,509

Atmos Energy Corporation
Depreciation, Accumulated Depreciation, Additions

Line No.	Department	Project No.	Category	Budget Category	Regulation	Work Order Long Description	Amount	In Svc Date	FERC Act	File Date	Mos In Svc	Book			Tax				
												Depr Rate	Annual Depr	Accum Depr	Tax Bonus	Tax Basis	Yr 1 Rate	Accum Depr	Tax > Book
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)
35	COKS-Yates Center-C&M/Service [3146]	060.38311	Leak Repair	System Integrity	192.703	Install 729 feet of 2" HDPE to replace 729 feet of 2" protected bare steel with active leaks. This is a GSRS Project due to replacement of bare steel with active leaks.	6,056	2017-04-18	37602	11/20/17	7	2.010%	122	73	50%	3,028	5.00%	151	3,106
36	COKS-Independence-C&M/Service [3145]	060.38312	Leak Repair	System Integrity	192.703	Install 12,580 feet of 2" HDPE. Retire 275 feet of 2" bare steel. 15,785 feet of 3" bare steel 4,725 feet of 4" bare steel, 1,810 feet of 6" bare steel and RS7222. This is a GSRS project due to severe corrosion problems and a history of leaks.	858,605	2017-09-18	37602	11/20/17	2	2.010%	17,258	3,020	50%	429,303	5.00%	21,465	447,748
37	COKS-Herington-C&M/Service [3136]	060.38328	Leakage/AGP	System Integrity	192.703/192.317	Install 500' of 2" HDPE to replace 500' of above ground protected bare steel. This is a GSRS project due to the replacement of above ground pipe discovered during continuing surveillance.	37,945	2017-06-20	37602	11/20/17	5	2.010%	763	324	50%	18,973	5.00%	949	19,597
38	COKS-Olathe-C&M/Service [3143]	060.38334	Structural Integrity of Pipe	System Integrity	192.53	Replace 282 feet of Marlex pipe discovered during valve replacement	11,730	2017-04-25	37602	11/20/17	7	2.010%	236	137	50%	5,865	5.00%	293	6,021
39	COKS-Olathe-C&M/Service [3143]	060.38383	Leak Repair/Structural Integrity of Pipe	System Integrity	192.703/192.53	Eliminate ~1200' of Marlex main and replace with 2" HDPE. Justifications: Leak repairs c Marlex are known to generate additional smaller leaks due to the vintage era plastic properties. Marlex is also historically known to leak at fittings.	91,252	2017-08-07	37602	11/20/17	4	2.010%	1,834	535	50%	45,626	5.00%	2,281	47,372
40	COKS-Olathe-C&M/Service [3143]	060.38384	Public Improvement	Public Improvements	66-2202(f)	Replace 2" Aldyl-A with 2" HDPE as per public improvement conflicts. Deadline: June 2017 No applicable easements	35,972	2017-06-07	37602	11/20/17	6	2.010%	723	333	50%	17,986	5.00%	899	18,552
41	COKS-Herington-C&M/Service [3136]	060.38395	25% Defined Area	System Integrity	192.453	Install approximately 1900' of 2" HDPE intermediate gas main. Retire 1820 feet of 2" ba protected steel and 170' of 1.25" bare protected steel. This is a GSRS project due to this area being a 25% yard line zone trip.	66,432	2017-09-18	38000	11/20/17	2	3.300%	2,192	384	50%	33,216	5.00%	1,661	34,493
42	COKS-Olathe-C&M/Service [3143]	060.38403	Public Improvement	Public Improvements	66-2202(f)	Replace ~ 340' of 2" Tt-418 230k (orange) PE with 2" HDPE SDR11 as to avoid storm water replacements. No locate wire & locate anodes are N/A. Deadline for relocations May 2017. No applicable easements. GSRS eligible as per municipality request	17,509	2017-05-08	37602	11/20/17	7	2.010%	352	192	50%	8,754	5.00%	438	9,000
43	COKS-Herington-C&M/Service [3136]	060.38457	Leak Repair	System Integrity	192.703	Install 360' of 2" HDPE with #2 bonding wire and retire 360' of 6" bare steel. This is a GSRS project due to leakage caused by corrosion.	13,686	2017-04-28	37602	11/20/17	7	2.010%	275	157	50%	6,843	5.00%	342	7,028
44	COKS-Independence-C&M/Service [3145]	060.38458	Leak Repair	System Integrity	192.703	Install approximately 300 feet of 2" HDPE to allow the removal of one regulator station that watering off, and the abandonment of 280' of 3" bare steel. This is a GSRS project due to water problems and bare steel service replacement.	38,351	2017-05-25	37602	11/20/17	6	2.010%	771	383	50%	19,176	5.00%	959	19,751
45	COKS-Olathe-C&M/Service [3143]	060.38471	External Loading/Atmospheric Corrosion	System Integrity	192.479/192.103	Replace suspended pipe w/coating loss across Kill Creek	127,621	2017-05-26	37601	11/20/17	6	1.900%	2,425	1,199	50%	63,810	5.00%	3,191	65,802
46	COKS-Independence-C&M/Service [3145]	060.38500	DIM Accelerated Action	System Integrity	192.1007	Replace approximately 50 service lines in Caney, Montgomery County, Kansas, as required the DIMP. This is a GSRS project due to the DIMP service replacement requirement. Installed 215 ft of 2" HDPE main and retired 1,100 ft. of 4" main.	93,810	2017-09-18	38000	11/20/17	2	3.300%	3,096	542	50%	46,905	5.00%	2,345	48,709
47	COKS-Olathe-C&M/Service [3143]	060.38510	Leak Repair	System Integrity	192.703	REPLACE SECTION OF 6" STEEL MAIN WITH 6" PLASTIC DUE TO LEAKAGE AND ENCROACHMENTS.	54,092	2017-04-26	37602	11/20/17	7	2.010%	1,087	628	50%	27,046	5.00%	1,352	27,770
48	COKS-Independence-C&M/Service [3145]	060.38559	Leak Repair	System Integrity	192.703	Install approximately 4,360' of 2" HDPE gas main. Disconnect, purge and abandon 4,375' 2.25" bare steel, 850' of 3.25" bare steel, and 1,280' of 2" obsolete Marlex poly gas main with locating wire. This is a GSRS project in Chetopa, Labette County, Kansas	360,396	2017-09-19	37602	11/20/17	2	2.010%	7,244	1,248	50%	180,198	5.00%	9,010	187,960
49	COKS-Herington-C&M/Service [3136]	060.38639	Public Improvement	Public Improvements	66-2202(f)	Retire 300' of 2" Bare protected Steel, and install 390' of 2" HDPE IP gas main to facilitate road work on Hwy 56 in Delavan. This is a GSRS project for Public Improvements in Delavan, Dickinson County, Kansas.	4,784	2017-05-24	37602	11/20/17	6	2.010%	96	48	50%	2,392	5.00%	120	2,464
50	COKS-Olathe-C&M/Service [3143]	060.38656	Public Improvement	Public Improvements	66-2202(f)	Replace ~500' of 6" steel coating unknown to avoid RCP replacement.	110,393	2017-06-19	37601	11/20/17	5	1.900%	2,097	897	50%	55,197	5.00%	2,759.83	57,059
51	COKS-Independence-C&M/Service [3145]	060.38707	Leak Repair	System Integrity	192.703	Retire approx. 650' of 6" coated protected steel, and install 573' of 2" HDPE. This is a GSRS project due to active leaks.	72,009	2017-04-18	37602	11/20/17	7	2.010%	1,447	868	50%	36,004	5.00%	1,800	36,936
52	COKS-Olathe-C&M/Service [3143]	060.38939	Public Improvement	Public Improvements	66-2202(f)	Replace ~680' of 2" MDPE with 2" HDPE SDR11 #8 Wire as to avoid Baschore storm sewer improvements along Garden Parkway. Zero reimbursement, 100% GSRS. Relocation deadline: July 28th, 2017	12,487	2017-09-12	37602	11/20/17	2	2.010%	251	48	50%	6,244	5.00%	312	6,508
53	COKS-Herington-C&M/Service [3136]	060.39020	Cathodic Protection	System Integrity	192.463(b)	Install a new ground bed at the intersection of 2000 rd and T ave to replace the existing failing ground bed.	18,539	2017-09-18	37600	11/20/17	2	1.740%	323	56	50%	9,270	5.00%	463	9,677
54	COKS-Olathe-C&M/Service [3143]	060.39081	Public Improvement	Public Improvements	66-2202(f)	Replace ~550' of 4" PE unknown plastic type with 4" HDPE 3408 SDR11 with #8 wire as to avoid public improvement grading. Non reimbursable 100% GSRS. Deadline: Pending Utility completion	20,383	2017-08-30	37602	11/20/17	3	2.010%	410	93	50%	10,192	5.00%	510	10,608
55	COKS-Independence-C&M/Service [3145]	060.39114	Leak Repair	System Integrity	192.703	Install 40' of 4" HDPE and Retire 450' of 4" protected coated steel. This is a GSRS project due to an active leak under the railroad tracks blowing out of a casing vent.	13,378	2017-09-18	37602	11/20/17	2	2.010%	269	47	50%	6,689	5.00%	334	6,977
56	COKS-Olathe-C&M/Service [3143]	060.39169	External Loading/Atmospheric Corrosion	System Integrity	192.479/192.103	exposed steel main over creek	173,306	2017-09-28	37601	11/20/17	2	1.900%	3,293	485	50%	86,653	5.00%	4,333	90,501
57	COKS-Olathe-C&M/Service [3143]	060.39233	Public Improvement	Public Improvements	66-2202(f)	Replace ~2300' of 3" unknown coating, unknown WT, unknown corrosion condition, protected by anodes with 6" HDPE 3408 Performance Yellow-stripe SDR11 as to eliminate isolate steel sections.	89,112	2017-09-21	37602	11/20/17	2	2.010%	1,791	299	50%	44,556	5.00%	2,227.81	46,485
58	COKS-Independence-C&M/Service [3145]	060.39279	Leak Repair	System Integrity	192.703	Install approximately 500' of 4" HDPE via HDD and approximately 100' of 2" HDPE via inset Retire 500' of 2" protected bare steel and approximately 100' of PE. Retire RS 7443, replace with a new RS, with valves. GSRS due to exposed poly.	48,929	2017-09-18	37602	11/20/17	2	2.010%	983	172	50%	24,464	5.00%	1,223	25,515
59	COKS-Olathe-C&M/Service [3143]	060.39363	Public Improvement	Public Improvements	66-2202(f)	Replace ~500' of 2" MDPE with 2" HDPE 3408 SDR11 Performance Pipe with #8 wire as to avoid public improvement conflicts	57,238	2017-09-28	37602	11/20/17	2	2.010%	1,150	169	50%	28,619	5.00%	1,430.94	29,880
60							7,677,556						173,627	89,983		3,838,778		191,939	3,940,736
61																			
62																			-36.50%
63																Accumulated Deferred Income Taxes			(\$1,438,369)

**GSRS Over/Under Cumulative Recovery
for February 2017 - October 2017**

Line No.	Description	GSRS Recoveries
	(a)	(b)
1	February-17	\$ 11,079
2	March-17	\$ 63,750
3	April-17	\$ 69,285
4	May-17	\$ 69,502
5	June-17	\$ 69,016
6	July-17	\$ 69,401
7	August-17	\$ 68,679
8	September-17	\$ 68,444
9	October-17	\$ 68,846
10	November-17	\$ 69,037
11	December-17	\$ 68,365
12	Total Cumulative GSRS Recoveries	\$ 695,405
13	Authorized Rev. Requirement in 17-ATMG-141-TAR	\$ 800,928
14	11 - Months Net Incremental Revenue Requirement in 17-ATMG-141-TAR	\$ 734,184
15	Total Amount Over/(Under) Recovered through October 2017	<u>\$ (38,779)</u>

Docket No. 18-ATMG-218-TAR
Atmos Energy Corporation, Kansas Division
Staff Information Request
Question No. 1-04
Page 1 of 1

REQUEST:

Based on the recent passage of Tax Cuts and Jobs Act which lowered the tax rate from 35% to 21%, Staff calculated a new Pre-Tax ROR of 9.54%. Staff calculated a new Pre-Tax ROR of 9.54%. Does Atmos agree that with the tax rate going from 35% to 21% would cause for a new pre-tax ROR to go from 11.04% to 9.54%? Please provide updated exhibits showing all the changes the new tax act caused (ie. ROR, ADIT, etc)

RESPONSE:

The Company does not agree that the passage of the TCJA can unilaterally change the 11.04% ROR that is required to be used in GSRS filings, pursuant to the terms contained in the settlement agreement entered into by the parties and approved by the Commission in Docket No. 16-ATMG-079-RTS ("079 Docket") and the Company objects to the use of any other Pre-Tax ROR in the calculation of the GSRS in this docket. The settlement approved by the Commission in the 079 Docket did not include a provision that the 11.04% ROR was subject to change as a result of a change in the corporate tax rate.

Notwithstanding said objection, the Company submits that any impact that the lower corporate tax rate included in the TCJA will have on customer rates, including the Company's GSRS rates, is best addressed in the general investigation in Docket No. 18-GIMX-248-GIV ("248 Docket"). The general investigation into the impact that the TCJA will have on utility rates can be done on a comprehensive and not piecemeal basis and can account for all tax changes that could both decrease and increase the utility's overall tax expenses and revenue requirement. Accounting for the lower corporate tax rate, along with the other TCJA tax changes, in the 248 Docket, will provide sufficient protection so customers will receive the benefits of any overall reduction in tax expense, including any overall reduction in tax expense relating to the capital investments included in the GSRS filing. It will also avoid a situation (as explained below) where accounting for just the reduction in the corporate tax rate will not accurately reflect the other tax changes in the TCJA that will also impact the utility's revenue requirement.

Subject to the above objection, please see Attachment 1 which includes the updates that would be necessary to *partially* incorporate the impacts of the recently passed TCJA (the Company believes that full impact of TCJA cannot be reflected outside the context of a

full rate case due to the impact on ADIT accrued at the former rate and the unknowns related to how the excess ADIT related to rate base items will be returned to customers going forward – paragraph 6 of Staff’s motion in the 248 Docket).

ATTACHMENT:

ATTACHMENT 1 - Atmos Energy Corporation, Staff_1-04_Att1 - GSRS Exhibits_new FIT.xlsx, 19 Pages.

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

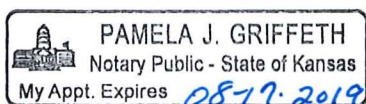
VERIFICATION

Robert E. Vincent, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Notice of Filing of Staff's Report and Recommendation* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Robert E. Vincent, Litigation Counsel # 26028
Kansas Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 19th day of January, 2018.


Notary Public

My Appointment Expires: August 17, 2019

CERTIFICATE OF SERVICE

18-ATMG-218-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served by electronic service on this 19th day of January, 2018, to the following:

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/s/ Pamela Griffeth

Pamela Griffeth
Administrative Specialist